ROBECO
The Investment Engineers

Multi-asset market outlook

The old school recovery

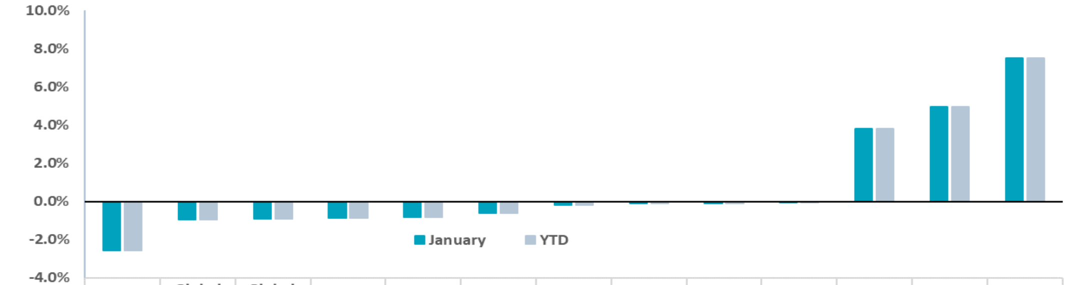
February 2021

For professional investors

Sustainable Investing Expertise by ROBECOSAM

General overview

January: Commodities continue to power ahead



	Gold	Global Gov Bonds (H EUR)	Global Infl linked bonds	Global Inv grade bonds	MSCI World (H EUR)	EMD LC (UH EUR)	Global real estate	EMD HC (UH EUR)	Global high yield	Cash	Emerging Markets (EUR)	GSCI Commodities	Oil Index
January	-2.6%	-0.9%	-0.9%	-0.9%	-0.8%	-0.6%	-0.2%	-0.1%	-0.1%	0.0%	3.8%	4.9%	7.5%
YTD	-2.6%	-0.9%	-0.9%	-0.9%	-0.8%	-0.6%	-0.2%	-0.1%	-0.1%	0.0%	3.8%	4.9%	7.5%

Source: Bloomberg, Robeco

Positions: Adding risk, with a preference for emerging markets

	Portfolio	Benchmark	Active
Equities Developed Markets	25.00%	25.00%	0.0%
Equities Emerging Markets	6.00%	5.00%	1.0%
Real Estate Equities	5.00%	5.00%	0.0%
SPX (US Equities)	-2.00%	0.00%	-2.0%
STXE 600 (EUR) Pr (Europese aa	1.00%	0.00%	1.0%
Nikkei 225 (Japanese equity)	1.00%	0.00%	1.0%
Commodities	6.50%	5.00%	1.5%
Global treasuries	27.50%	27.50%	0.0%
US Treasuries	-2.50%	0.00%	-2.5%
Investment Grade Corp Bonds	19.00%	20.00%	-1.0%
High Yield Corp Bonds	5.00%	5.00%	0.0%
Emerging Market Bonds LC	6.00%	5.00%	1.0%
Cash	2.50%	2.50%	0.0%

Source: Robeco

> Commodities and emerging market equities were the best-performing assets in January. It wasn't a good month for all commodities – gold, for instance, had a terrible month. Also delivering negative returns were global government bonds, inflation-linked bonds and investment grade bonds, all which to some extent can be considered to be defensive assets.

> Market action was generally erratic, especially in some segments of the US equity market. The saga of Robinhood investors, stretched call/put ratios, high margin debt and low retail cash levels all seem to point to exuberance. Persisting excess liquidity has lowered the bar to enter the equity market, and it is possible that we find ourself in situation of 'too much money chasing too few assets'.

> In our view, despite the stretched sentiment levels, there is reason to remain constructive on risky assets, especially equities and commodities. We expect an 'old school' recovery, driven by pent-up consumer demand as well as corporate investments later in 2021. The old school recovery will likely be beneficial for equities, as it magnifies the expected spike in earnings growth.

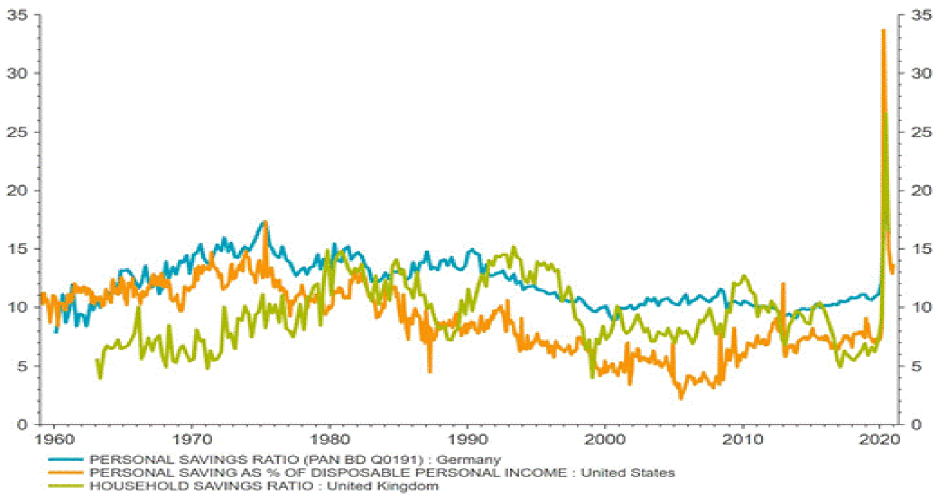
> In January we continued to gradually increase the risk profile of the portfolio. The changes made were mainly focused at adding emerging markets exposure: the weight of both emerging market equities and emerging market debt was increased. This was done at the expense of cash and global investment grade credit. To further gear the portfolio towards cyclicals, we tilted the equity exposure towards Europe and Japan at the expense of the US.

All market data to 29 January unless mentioned otherwise

ROBECO

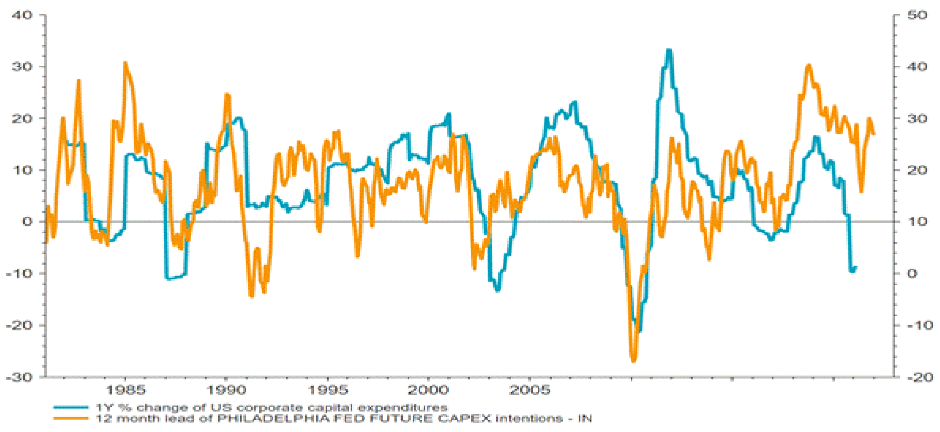
Theme of the month

US : An elevated household savings ratio



Source: Refinitiv, Robeco

Capex: A rebound in capex intentions



Source: Refinitiv, Robeco

The old school recovery (I)

> The global economic recovery is starting to look different to the ones we have become used to over the past decades. The strong focus of fiscal stimulus aimed at boosting the real economy instead of monetary stimulus focused on stabilizing the financial sector makes this more of an 'old school recovery', in our view. Old school, as in the real economy gradually starts to take center stage in the macro news flow, spurred by positive multipliers from past and future extraordinary fiscal and monetary stimulus.

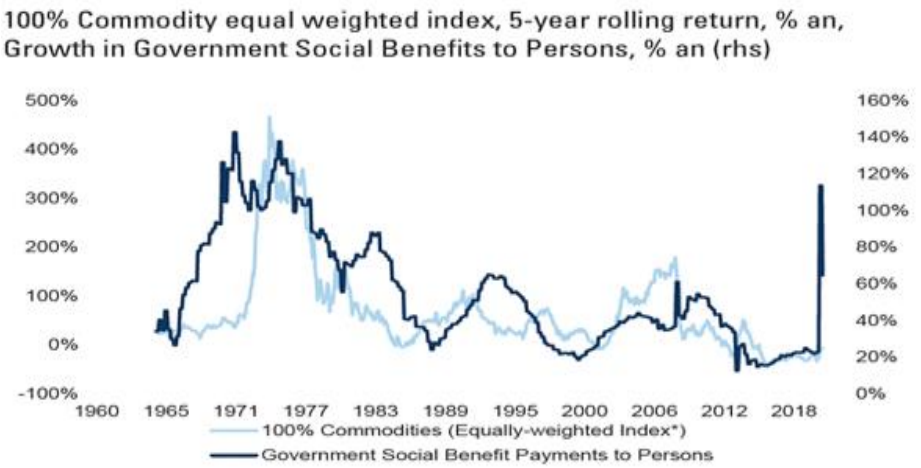
> This stands in sharp contrast to the aftermath of the Global Financial Crisis (GFC), when the financial system instead of the real economy was the focus of government support. This time around, available fiscal space is not just being used forcefully, but is also largely being redirected to address inequality, particularly in the US. The strong focus on the demand side is visible in measures such as direct cash payments to households, job retention schemes and unemployment insurance. Thus, the boost to real GDP from each government dollar spent could very well be larger compared to the post-GFC recovery.

> As the possibility to spend emerges with reopenings in the second and third quarters of 2021, we have a high conviction that consumers and producers are willing and able to spend excess savings as employment improves and consumer risk aversion drops. Global personal savings ratios are at the highest levels in decades for major developed economies such as Germany, the UK and US. In turn, surging consumer demand could create selective supply side pressures, for example in the energy sector, given strong declines in investments since Covid-19 erupted. In response, higher capacity utilization rates will incentivize corporate capital expenditures further down the road. Already, capex intentions are rebounding.

Theme of the month

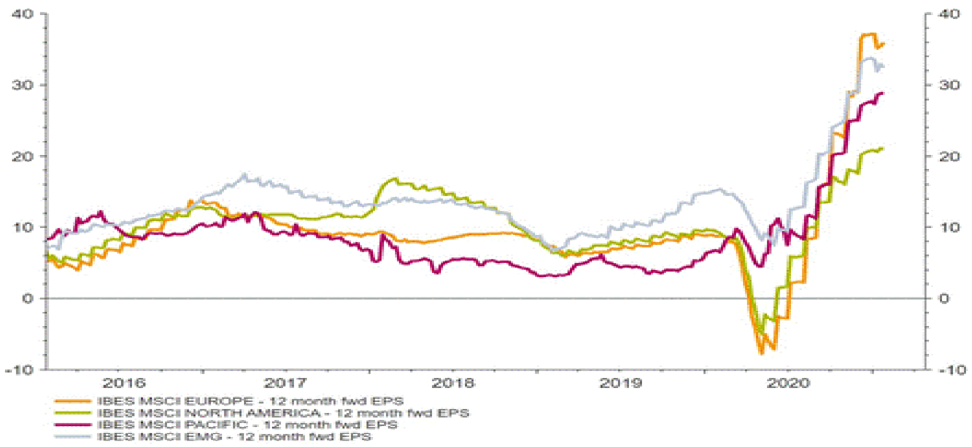
The old school recovery (II)

Commodities: Redistributional policies' effect on commodity prices



Source ; AQR, Goldman Sachs Global Investment Research, Bloomberg

Earnings: Rebounding forward earnings growth



Source: Refinitiv, Robeco

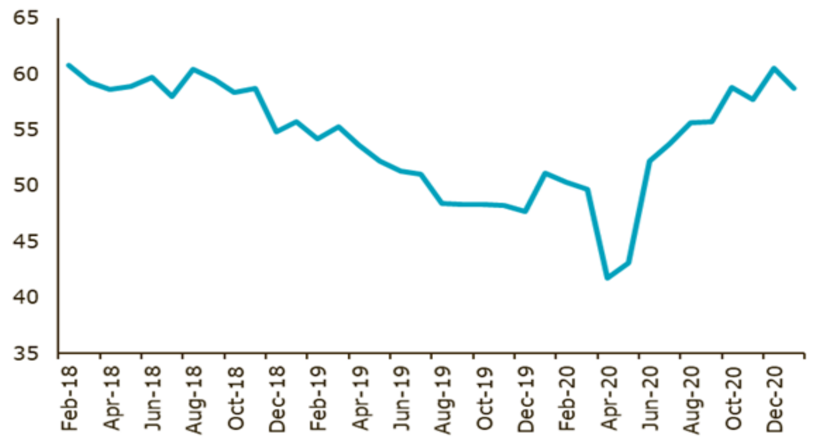
> With extraordinary amounts of fiscal stimulus aimed at boosting the real economy, commodities have come back into play. This was the main reason why we initiated a long position in commodities in May last year. Even after a 15% rally, recent developments suggest that the commodity rally has further to go.

> First, a significant part of the fiscal stimulus is direct aid for businesses and consumers. Historically, a rise in social benefits has been accompanied by a rise in commodity prices, as the chart from Goldman Sachs reveals. In addition, fiscal stimulus is likely to be proactively aimed at lower-income households. These households consume more goods by volume, further underpinning demand for commodities. Fiscal stimulus also offers a way of accelerating the realization of sustainability targets. The ever-increasing awareness of global sustainability challenges will result in a green capex wave in the coming years. This, too, will translate into strong demand for commodities. Finally, commodities provide a hedge against both a lower US dollar and higher inflation. The combination of global economic recovery, extremely loose financial conditions and somewhat extended valuations is likely to push the dollar gradually lower.

> The old school recovery is likely to benefit equities as well, as it magnifies the expected spike in earnings growth. Our analysis shows that earnings growth is especially strong in the expansion phase of the business cycle, which we have just entered. For the MSCI World All Countries Index, earnings growth of roughly 25% is expected. In regions with high operational leverage – Europe, Japan and emerging markets – expectations are as high as 36%, which we think is achievable. As a result, earnings growth will be the main driver of equity market returns going forward.

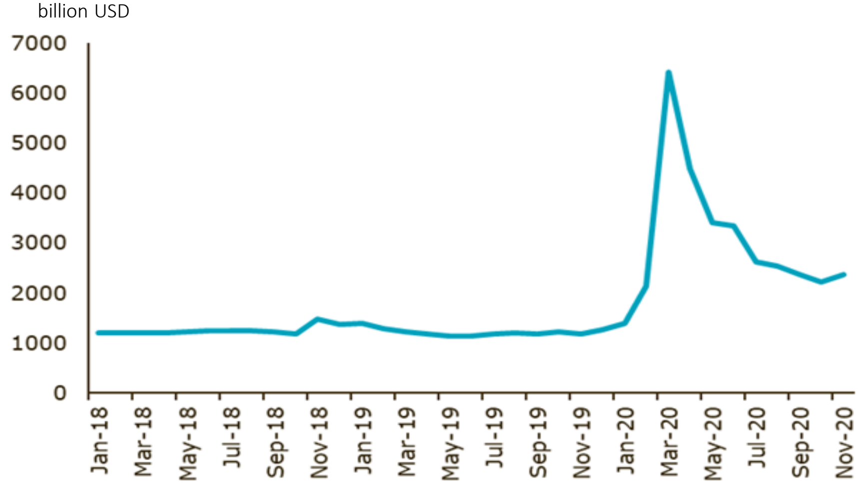
United States

ISM manufacturing: A small setback but firmly above 50



Source: Bloomberg, Robeco

US savings: Ample firepower to consume



Source: Bloomberg, Robeco

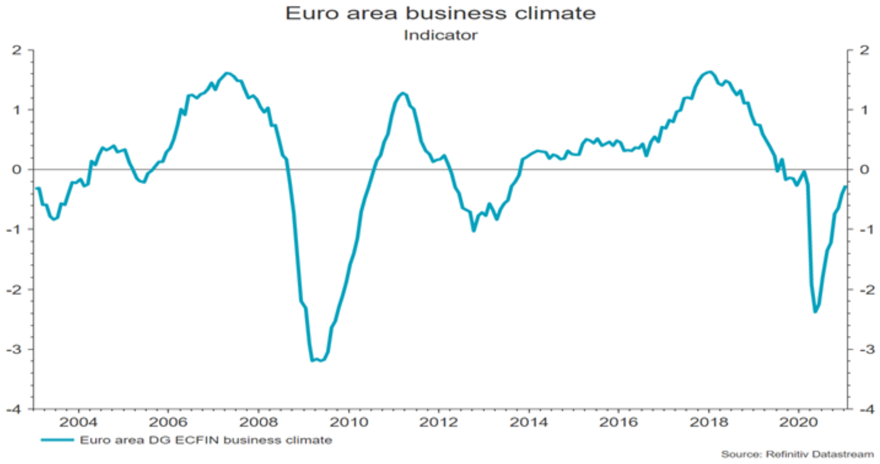
> The Fed has been clear about its policy goals, and one thing it definitely doesn’t want to do is tighten too early. This message is easy to sell when inflation is far below 2%. While reaching 2% is no longer the target, when inflation eventually does reach that level, the market will start wondering more urgently what the trigger level is for the Fed to react. Due to the base effect, it is highly likely that inflation will reach, and maybe even surpass, 2% in the near term. While this can be dismissed as just a technicality, it is good to be aware that forward inflation expectations have already moved passed their pre-pandemic level, and are firmly above 2%.

> We think that the current policy backdrop is more inflationary. The cooperation between the monetary and the fiscal authorities remains firm. Also, the debate is not only still skewed towards more fiscal support, but the focus of the support is different. Both fiscal and monetary support are directly targeted at the population and so are less dependent on the so-called trickledown effect.

> The latest ISM manufacturing number was weaker but remains firmly above 50. The prospects for the US economy continue to look good. Consumers will be important to keep the economic momentum going. We suspect that there is quite a bit of pent-up demand, mainly for services that are simply not available due to the pandemic. Not only is the savings rate still relatively high, the jobs market is also recovering, so there is ample firepower available .However, with the pandemic still affecting everyday life, the monies will not be put to work. Fortunately, things are starting to improve, as the rate of infections is slowing, and vaccination have started.

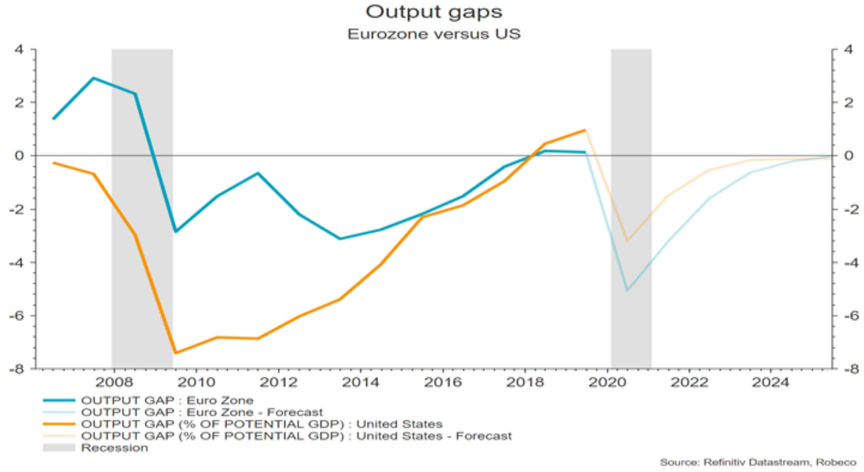
Europe

Eurozone: V-shaped recovery remains incomplete



Source: Refinitiv, Robeco

Eurozone: Excess capacity will linger for longer



Source: Refinitiv, Robeco

> So far, so good for the Eurozone economy. The V-shaped recovery remains intact, looking at the European Commission's January business climate indicator, which improved further. However, other leading indicators such as the German IFO noted a deceleration in economic activity; the business expectations component declined from 98.5 to 95.6. German retail sales in December also contracted significantly. The recovery remains incomplete, with GDP still at levels below the Covid-19 outbreak, and output gaps still negative. Capacity utilization remains 4% below historical averages. Eurozone unemployment also did not drop further in December and remains stuck at 8.3%. Worker job subsidy schemes still act as a buffer for the labor market. Eurostat noted that in Q4 2020, wage growth contributed most to the 4% increase in gross adjusted disposable income in the Eurozone.

> Absent from base rate effects which will come into play in the coming months, lingering excess capacity implies only a modest structural rebound in core CPI. Eurozone core CPI is only 0.2% and remains far below the ECB inflation target. Nonetheless, more inflation volatility over the coming months could complicate the forward guidance from the central bank. German inflation in January already surprised to the upside, mainly due to one-off effects. However, ECB President Lagarde has already stated that "any kind of tightening at the moment would be very unwarranted". Even if pent-up demand causes temporary inflation, the ECB will continue its dovish stance. Cumulative net ECB purchases of government debt since the start of 2020 now amount to 7% of Eurozone nominal GDP; the equivalent statistics for the Fed, BoE and BoJ are 11.6%, 14% and 10%.

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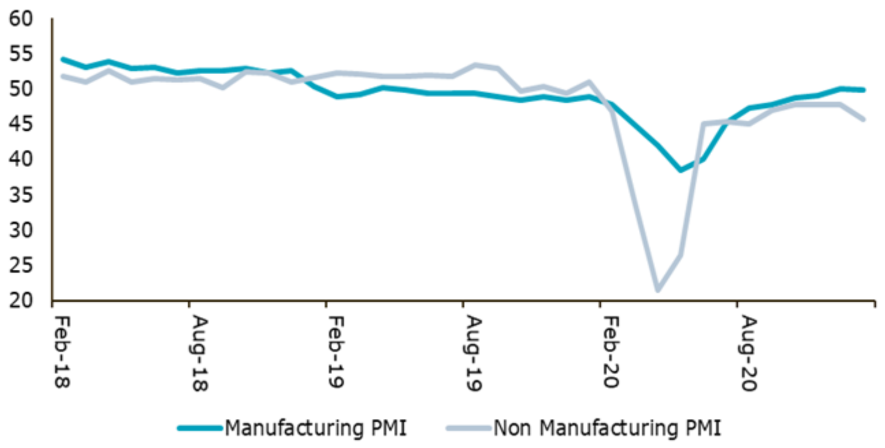
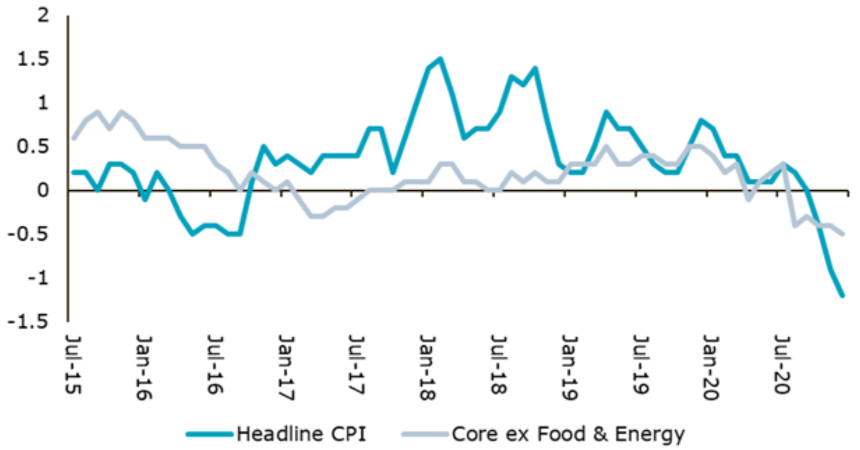
Japan

Both PMIs are below 50 again



Source: Bloomberg, Robeco

Inflation just keeps dropping



>Source: Bloomberg, Robeco

- The Bank of Japan made no changes to its policy at its latest meeting, in line with expectations. Adjustments to the special measures to combat Covid-19 had been made at the previous meeting. The BOJ did upgrade its economic outlook, as growth expectations for 2020 and 2021 were raised. Revisions to the inflation outlook were marginal. The overall message of the economic outlook remained one of caution. We don't expect any changes until March, when the BOJ will have finished its assessment of current policy settings. The central bank has been clear that there is no need to change QQE and yield curve control. So, the assessment will mostly cover other measures such as ETF purchases. The pillars of monetary policy remain quantitative easing, yield curve control and providing finance to the private sector.
- In March, a board seat becomes available at the BOJ. Japanese Prime Minister Suga nominated a know reflationist for this position, further solidifying that he expects the BOJ to continue assist the economic recovery through accommodative policies.
- The number of Covid-19 infections remains elevated and is weighing on economic activity. High frequency data shows that mobility has decreased towards levels last seen in June. Softness is also visible in the purchasing managers indexes. The manufacturing index retreated slightly; this is the first drop in eight months. The service sectors index registered its second back-to-back slowing.
- The inflation index excluding both energy and fresh food – the gauge preferred by the BoJ – came in at - 0.4% year-on-year and remains far below the target of 2.0%.

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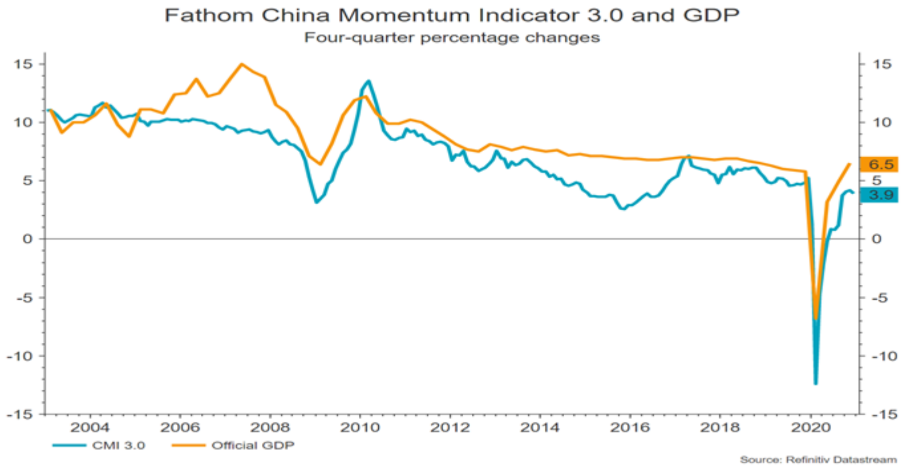
China

China's momentum is slowing… for now



Source: Refinitiv, Robeco

Chinese stimulus still benefits regional exporters

Source: Refinitiv, Robeco

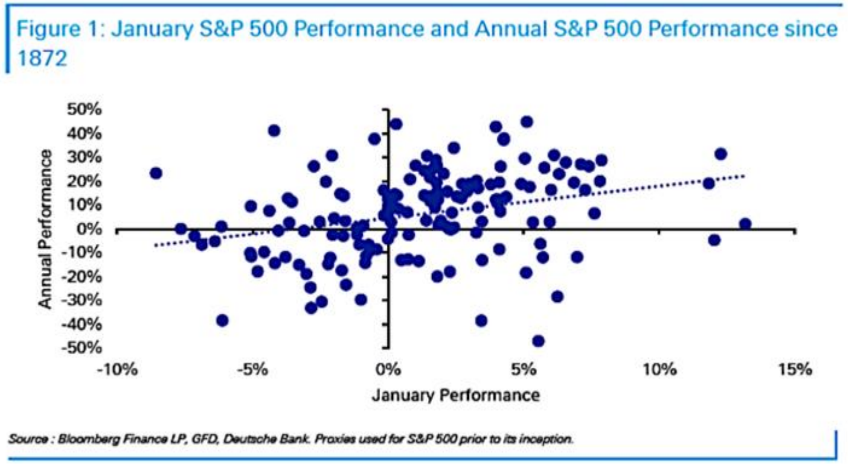
> China's GDP grew 2.3% last year, making it the only major economy to see its output expand. The latest economic momentum indicators for China's manufacturing cycle indicate that the country is losing some pace in industrial activity, though it is still expanding. The official PMI fell back to 51.3 in January from 51.9 in December. The deceleration was due to several lockdowns in Chinese cities as new Covid-19 cases emerged. Also, the Lunar New Year celebrations typically cause a seasonal dip in activity. Although Chinese stimulus, measured by total social financing, may well have peaked, a rebound in economic activity after the Lunar New Year is likely.

> First, the lagging effect of past and present stimulus will still manifest itself in the first half of 2021. Second, the Chinese savings rate is still historically elevated at 37% of disposable income. Third, despite the recent yuan strengthening, Chinese export orders could increase further, as global aggregate demand will improve once developed economies gradually reopen. The export PMI softened somewhat to 50.2 after rising for the last five months.

> As the economy gets onto a stronger footing, Chinese policymakers are increasingly paying attention to financial stability risks emanating from high leverage. As there are still downside risks to the economy, evidenced by a local resurgence of Covid-19, a move to a tightening stance would be premature. Core inflation posted a fresh 10-year low of 0.4% in December. A tightening stance would also strengthen the yuan even more, potentially weakening the external competitiveness of the Chinese export sector. Lastly, a key external risk that remains is a flare-up of the trade war with the US. President Biden will first focus on domestic policies and is unlikely to provide much leeway for Chinese economic expansionism in the meantime.

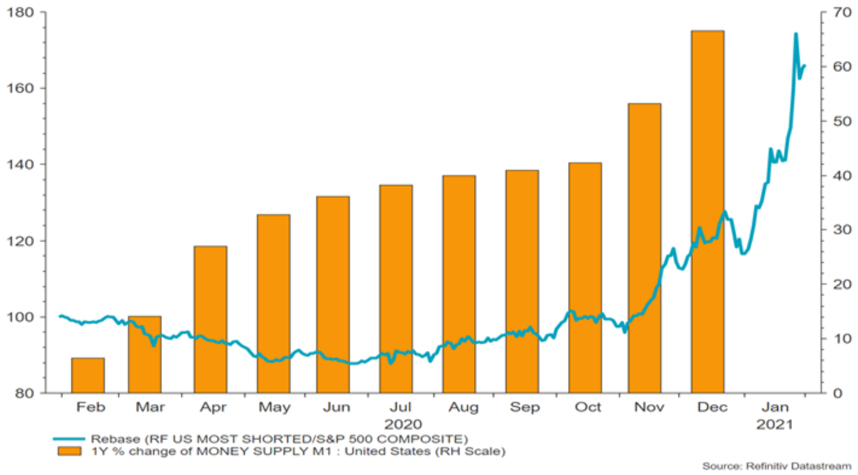
Equities (I)

S&P 500: 'As January goes, so goes the year'?



Source: Bloomberg, Deutsche Bank

Equity mania: More money, more short squeezes



Source: Refinitive, Robeco

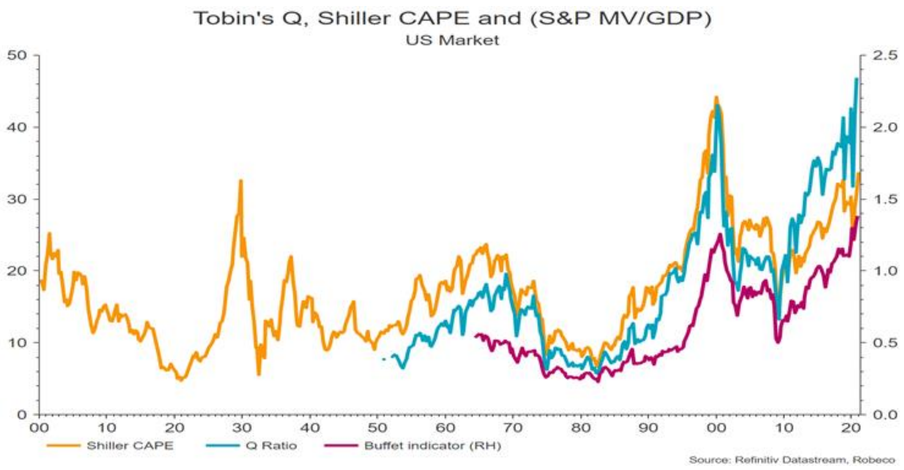
> Trading floor wisdom conveys that 'As January goes, so goes the year'. The MSCI World Index in local currency lost 0.8% in January and should therefore imply a challenging year for the stock market. However, the relationship between January performance and annual performance is not overwhelmingly strong, with a hit ratio of 58%. This is somehow comforting, as January 2021 was an erratic month which showed animal spirits reign in some segments of the equity market. Bouts of irrational exuberance within the retail investor community entered the limelight and captured financial media headlines. Stocks such as Gamestop and Clubhouse were bought after Elon Musk tweeted about them, with investors indiscriminately trying to dive into them, even buying the wrong but similar sounding ticker names in the case of Clubhouse.

> The latest bout of exuberance erupting from Robinhood investors, evidenced by stretched call/put ratios, high margin debt and low retail cash levels, could be a simple case of 'too much money, chasing too few assets'. Persisting excess liquidity has lowered the bar to enter the equity market. Also, the retail focus to 'punish' big hedge fund shorts is indicative of widening economic inequality and a past failure to equally distribute the wealth effects stemming from monetary easing.

> Markets have become less macro sensitive lately, with many observers pointing to lower correlations between cyclical growth indicators and stock market performance. Moreover, certain well known valuation ratios have been indicating for longer that an apparent decoupling between financial markets and economic fundamentals was underway.

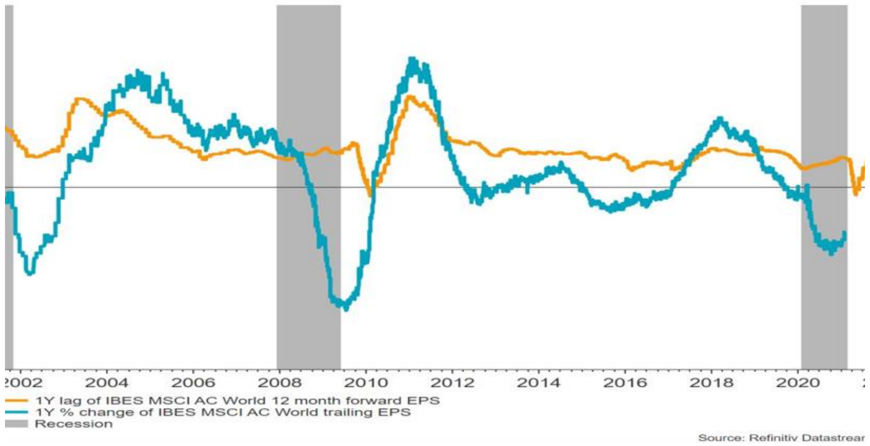
Equities (II)

Valuation: Levels in US stock market are stretching



Source: Refinitiv, Robeco

Earnings: Global EPS is bottoming out

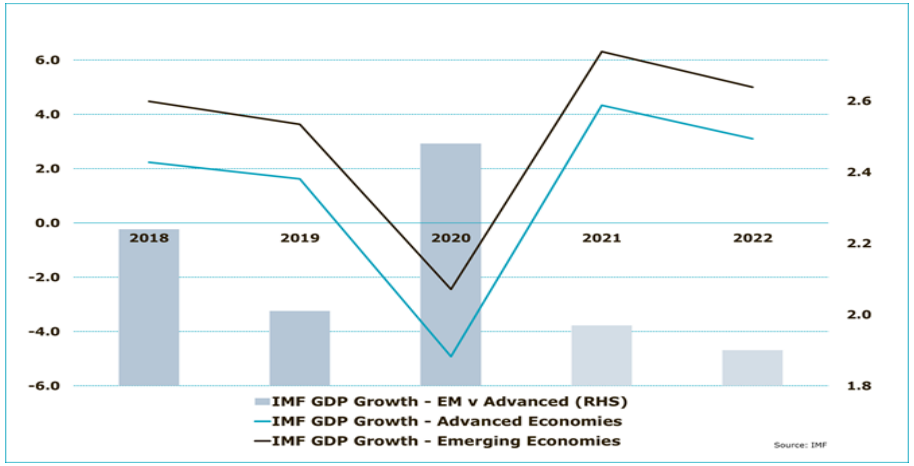


Source: Refinitiv, Robeco

- Specifically, Tobin's Q, the Shiller CAPE and the Buffet indicator agree that US stocks are expensive from an historical perspective. Tobin's Q indicates that the current market value of US corporates now exceeds their replacement value by 2.3 times. This should be a strong incentive for corporates to pursue capital investments instead of spending money on expensive takeovers.
- These valuation metrics matter for the longer term, but in the short term anything can happen, so current 'bubble' talk seems premature. First, discount rates are still exceptionally low and are expected to remain so on a tactical horizon. Second, valuation ratios are positively correlated to net earnings upgrades, which are typically seen in the early recovery phase of the business cycle. We expect a return to trend level earnings by the end of 2021 as economies reopen, implying a global EPS growth of at least 20%, with risks to the upside. Lastly, piercing potential financial bubbles are of lesser concern for central banks at this juncture, as they are fully focused on their role as fiscal financier to meet their mandates.
- The outlook for stocks for the next 6-12 months looks bright as we move closer to herd immunity, dissaving boosts pent-up demand, and the lagged effects of fiscal and monetary stimulus peak. In the short term, cautiousness is warranted given exuberant sentiment levels, positioning squeezes and weaker macro momentum. We maintain a modest overweight concentrated in the laggards of the 2020 rally, with an overweight in Europe, Japan and emerging markets, as they will benefit most from a global cyclical recovery in a weaker dollar regime.

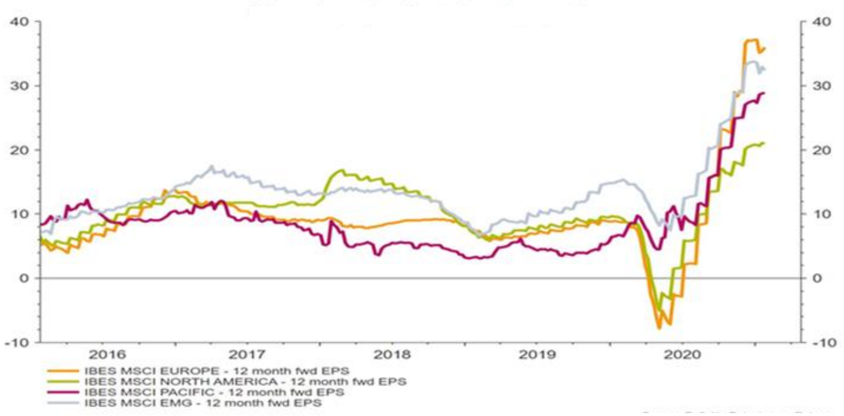
Emerging Equities

GDP Growth: EM vs DM



Source: IMF

Earning: A strong rebound is expected



Source: Refinitiv, Robeco

> Emerging market equities were the second-best performing asset class after commodities in January. The rise in commodity prices, relatively low valuations and a lower US dollar helped emerging equities to return 3.8% on average.

> We have upgraded emerging market equities to a marginal overweight in the multi-asset portfolio. This means that we are now marginally overweight in Europe, Japan and emerging markets at the expense of US equities.

> Over the next 12 months, we expect emerging equities to do well as the global economy strengthens, helped by higher degrees of Covid-19 vaccinations. Companies with relatively high operational leverage and low valuation should benefit the most, resulting in very strong earnings growth. Basically, all regions outside the US fit that description.

> For emerging market equities in particular, our constructive view on commodities is positive, as emerging markets tend to outperform when commodity prices rise. Higher GDP growth, potential supply disruptions, growth in social benefits and ESG-driven green capex should lead to higher commodity prices.

> Another important driver for relative performance – relative GDP growth momentum – is neutral at best. Because of the extraordinary fiscal and monetary stimulus in developed markets, the IMF expects a GDP growth differential of around 2%, which is far from unusual.

> We are overweight in emerging market equities at the expense of US equities.

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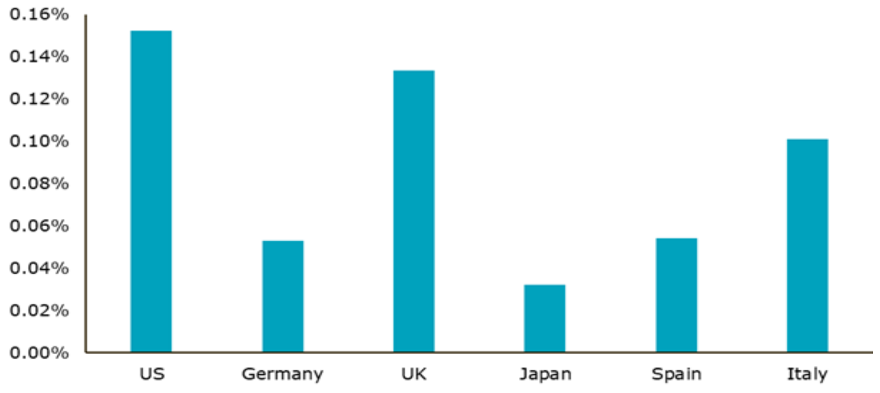
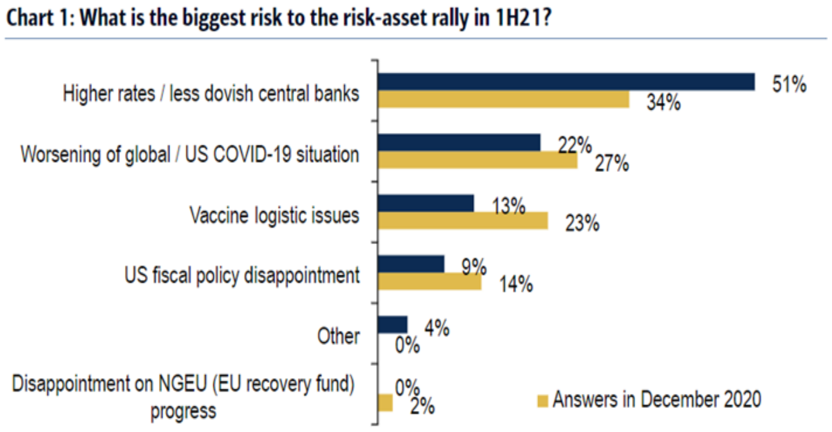
AAA Bonds (I)

10-year yields: Upward pressure across the board



Source: Bloomberg & Robeco

Investor survey: Higher rates are the biggest risk to asset rallies



>Source: BofA Global Research FX and Rates Sentiment survey

- Government bond yields continue to lag the economic recovery that we have witnessed over recent months. Even now that vaccinations have started, upward pressure on government bonds yields in general has been tentative. Although the reaction of yields to economic improvement remains slow, it looks like yields have finally bottomed.
- The direction of global yields continues to be determined by what happens in the US, where fiscal stimulus remains the dominant force determining their direction. The equal split in Senate seats, which gives the vice president a deciding vote, tipped the scale towards more fiscal support. It is highly likely that a fair amount of the USD 1.9 trillion stimulus package proposed by President Biden will indeed be delivered.
- Fiscal stimulus should put upward pressure on yield as it increases economic growth/inflation and increases the supply of bonds due to widening deficits. The positive impact on inflation is already noticeable as forward inflation remains firmly above 2%. Only the wider deficits have not put substantial pressure on the risk premium to hold nominal bonds.
- This is probably due to the Fed being a price-insensitive buyer committed to its buying program. Also, the absolute level of US yield might be low, but not when compared to Germany or Japan. With a steeper yield curve, the yield offered by the US on a hedge basis is starting to look appealing again compared to the low yielders.

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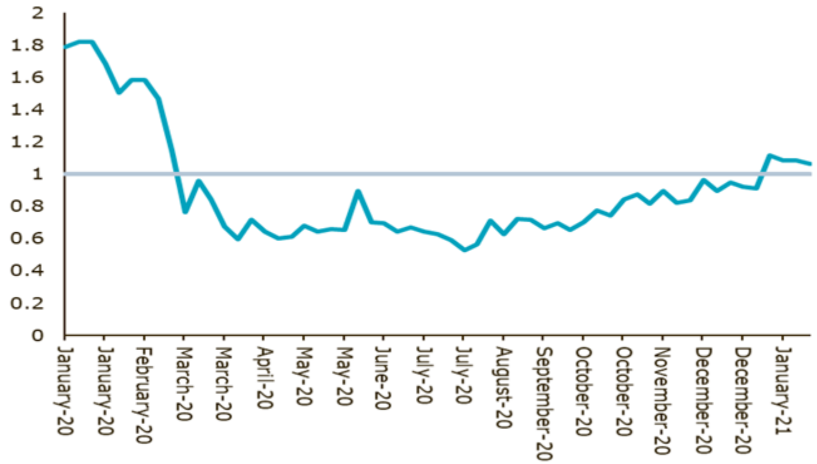
ROBECO

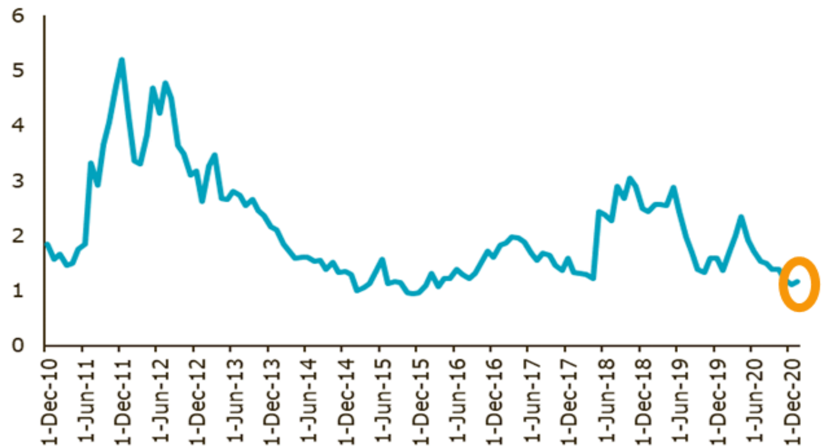
AAA Bonds (II)

10-year yields were mostly above 1% in January



Source: Bloomberg & Robeco

Italian politics: The Italian-German spread is only marginal wider



>Source: Bloomberg & Robeco

> Fed Vice chairman Clarida commented that 10-year yields above 1% are not a concern, and Chairman Powell made clear that the tapering of purchases is currently not on the table. Taking this into account, we don't expect 10-year yields to explode to the top side, though a move towards 1.50% is plausible in our view. For yields to move substantially above this level, we would need to see an accelerated move towards the Fed's targets for inflation and unemployment. This would either cause the Fed to either tighten earlier, or it would unhinge inflation expectations.

> In Europe, Italy once again moved into the spotlight due to politics. The prime minister resigned after losing his majority in the Senate. Currently we don't think there will be an early election, but things need to be monitored closely. In reaction, the risk premium to hold Italian bonds increased. However, compared to previous flare-ups of political uncertainty, the move in yields remains well contained. The ever-present hand of the ECB in the bond markets remains a credible backstop for now. Compared to other regions, lockdowns have been more severe in Europe. This is starting to have an impact on sentiment and economic activity. With Europe also lagging behind in vaccinating its populations, it is highly likely that the recovery in Europe will trail that of other regions in the coming period.

> We continue to hold an underweight position in bonds. Our preference is to be underweight US Treasuries. Given the fiscal support program and a patient Fed, we think currently the reflation story is much more US-centric. This makes US bonds more vulnerable to a mild sell-off.

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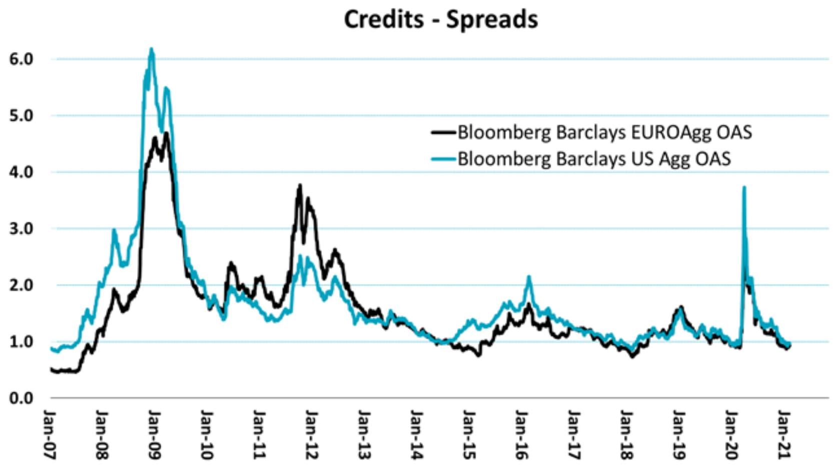
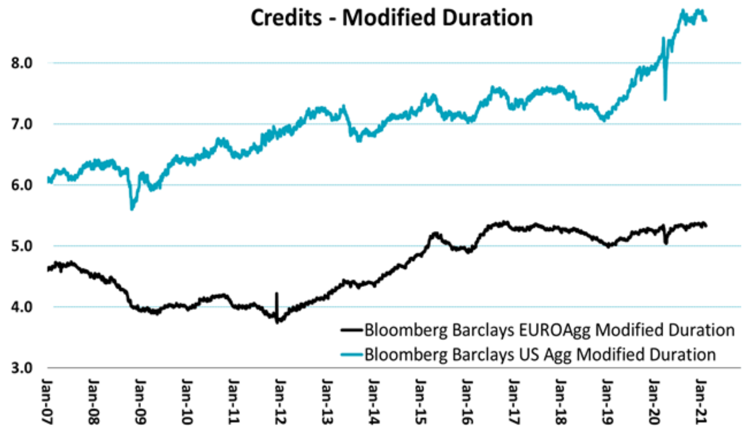
Investment Grade Credits

Investment grade credits: Spreads



Source: Bloomberg & Robeco

Investment grade credits: Duration



>Source: Bloomberg & Robeco

> Global investment grade credits realized a negative return of 0.9% in January. The rise in government bond yields, and in US Treasuries in particular, hurt the asset class, whereas spreads were pretty much unchanged at just below 100 basis points.

> We have downgraded global investment grade credits to underweight. First, the average spread on global investment grade bonds has dropped to below 100 basis points, a level it only stayed below for a considerable time between 2004-2007. While the spread level fell to as low as 55 basis points during that period, we expect this to be a bridge too far in the next 12 months as economic vulnerabilities remain.

> Second, corporate duration remains at historically high levels, especially in the US, which has by far the biggest weight in the Bloomberg Barclays Global Agg Corporate Bond Index. The duration of US corporate bonds stood at 8.70 years at the end of January. Duration in Europe is considerably lower but is elevated as well from an historical perspective.

> Third, nominal yields are historically low, and real yields are likely to turn negative in the coming months, as base case effects lead to a spike in inflation. Taken together, little is needed to push corporate bond returns into negative territory. Even in our more upbeat base case scenario (unwinding lockdowns, GDP recovery and powerful earnings growth), investment grade bonds are likely to lag because of rising bond yields and investors looking for more yield and return in other asset classes.

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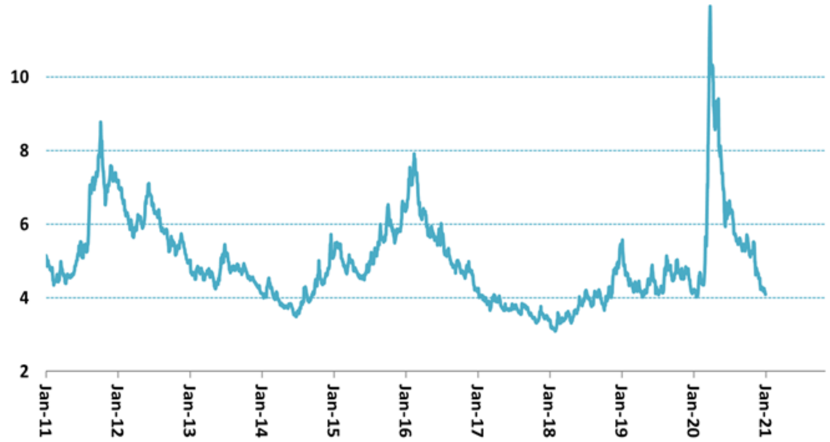
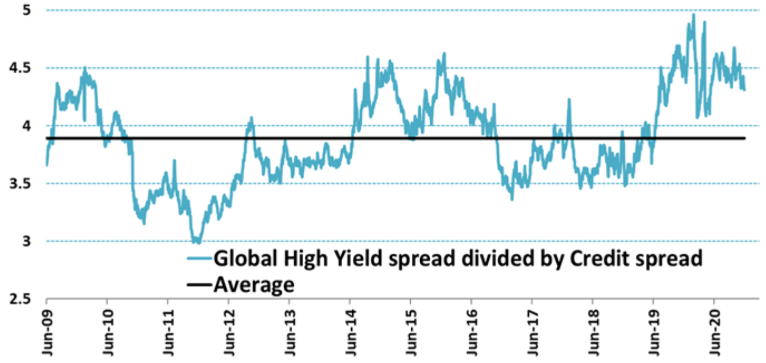
High Yield

Global high yield: Average spread



Source: Bloomberg & Robeco

Global high yield: Relative spread level versus global credits



>Source: Bloomberg & Robeco

> Global high yield bonds realized a marginal negative return of 0.1% in January. The average spread level was 411 basis points at the end of the month, virtually unchanged from the month before.

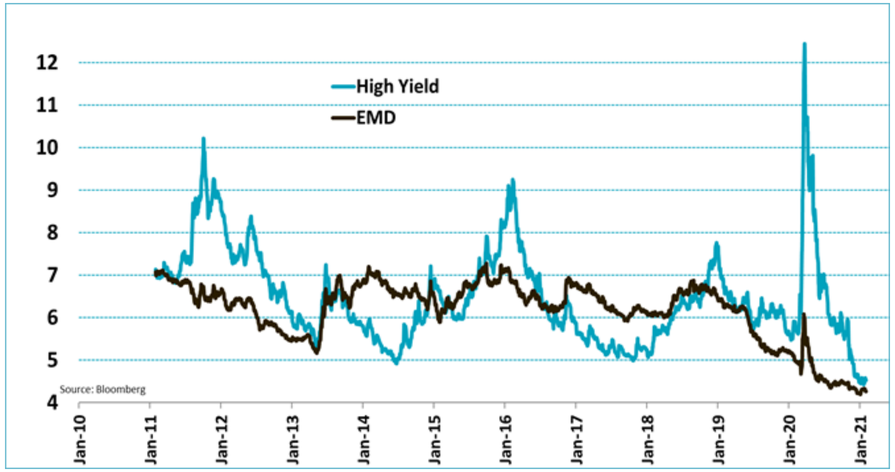
> With the spread on global high yield bonds at around 400 basis points, we are currently sitting at the lower end of the range associated with our base case scenario. For markets to move into a bull case scenario, we would need to see faster-than-expected vaccinations, or more stimulus in the near future, both of which are not that likely. Hence, we expect spreads can only marginally tighten from here.

> Even though yields are at historically low levels, the asset class still offers value relative to corporate and government bonds. We expect yields to grind higher from here, driven by higher inflation expectations and the resumption of the global economic recovery. Duration risks are much higher for both corporate and government bonds. In addition, improving economic momentum will translate into a sharp increase in company earnings, limiting worries about coverage ratios and leverage.

> Yet, at current spread and yield levels, high yield bonds offer little protection against adverse circumstances which (further) hamper the economic recovery. With the already significant impact that Covid-19 has had on corporate health, default risk could start to rise quickly if the must-anticipated recovery falls short. Hence, we remain neutral in global high yield bonds.

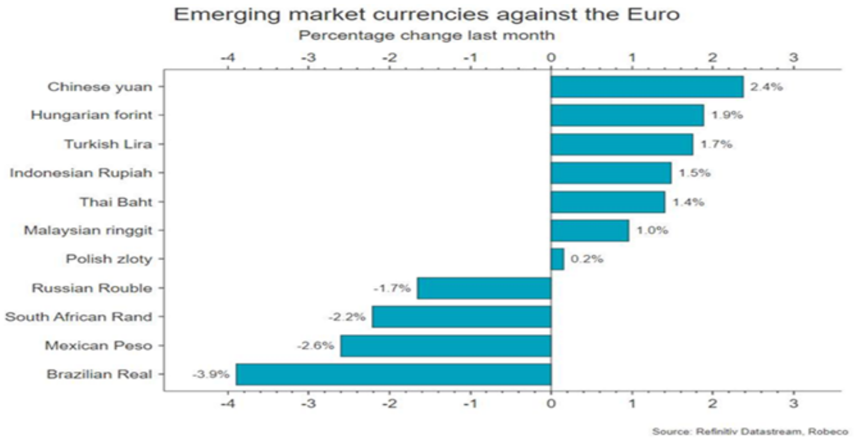
Emerging Market Debt

Emerging market debt in local currency: Spread and yield



Source: Bloomberg & Robeco

Emerging market currencies against the euro



Source: Refinitiv, Robeco

> Measured in euros, local currency emerging debt realized a negative return of 1.2% in January. Bond yields across the globe rose during the month, including those in emerging countries, whereas currency performance against the euro was a mixed bag.

> In the second half of January, we implemented a small overweight in local currency emerging market debt at the expense of developed market corporate bonds. In short, we like emerging market currency and yield pick-up more than credit duration risk. Also, there is little to no yield pick-up left in global high yield bonds.

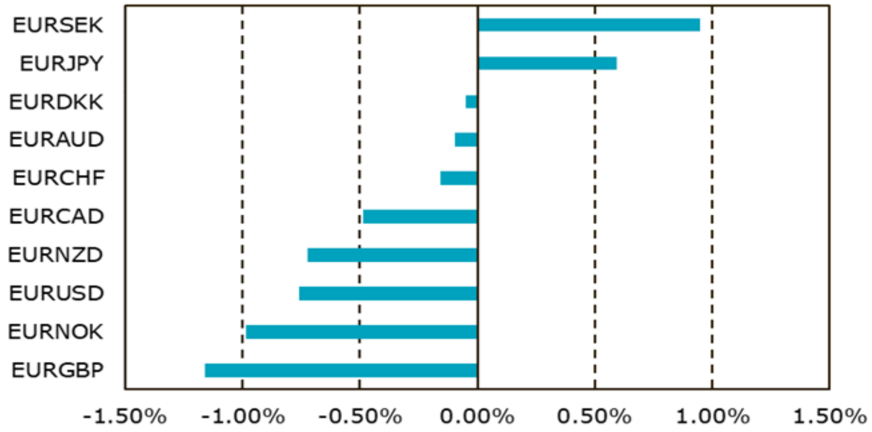
> With emerging market currencies still down 15% against the euro relative to the pre-Covid-19 level, valuation looks reasonably attractive. This is also because strict lockdowns have put the European economy at the back of the line for recovery, reducing the odds of further euro strength. In combination with the resumption of the global recovery, accompanied with higher commodity prices, emerging currencies should rise.

> Despite the yield on local currency emerging market debt falling to record lows, we expect the ongoing search for yield to support the asset class. Positive real yields have become increasingly scarce, especially now that inflation expectations are rising across the globe. Emerging markets are among the few places that offer positive real yields.

> Finally, idiosyncratic risks have decreased, for example in Turkey, but some weaknesses persist. However, we believe investors are willing to look past these during a phase of economic expansion combined with large amounts of liquidity.

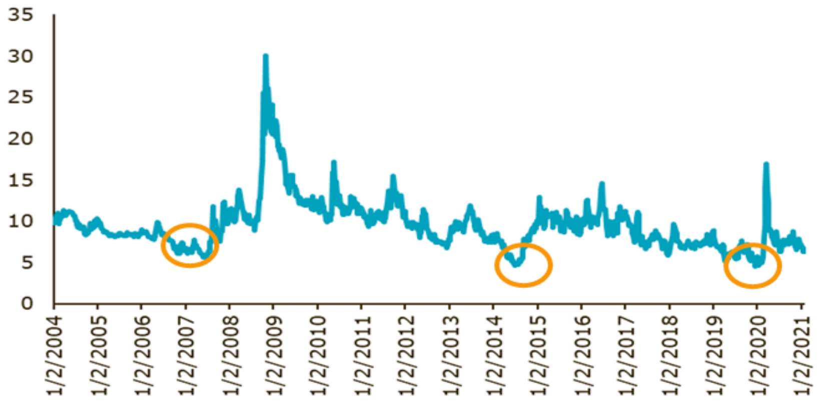
FX (I)

G-10 currencies: A strong start to the year for sterling



Source: Bloomberg, Robeco

G-10 1-m implied volatility continues to slide but is far from lows



Source: Bloomberg, Robeco

> 2021 didn't start out too well for the euro. While not the weakest of the G-10 currencies, it was still among the bottom three. In general, the monthly moves of euro crosses were relatively subdued, and with some exceptions were within 75 basis points. G-10 currency volatility continued to slide lower, and while it is at the lowest level it has been in six months, it still is around 200 basis points higher than the 5-year low it reached back in December 2019.

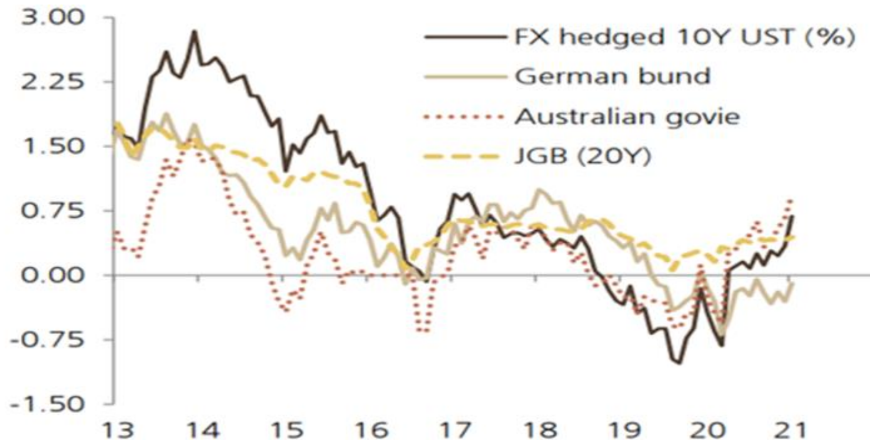
> The trade deal between the UK and EU reached in the final days of 2020 led to a sigh of relief, as it prevented a disorderly exit. Sterling benefitted as the risk premiums demanded to hold the UK currency dropped. How much sterling will ultimately strengthen is unknown. Besides the last-minute trade deal, sterling has something else going for it, since the UK leads the Eurozone in numbers of vaccinations. This could ultimately lead to lockdowns being lifted earlier and opens the door for a quicker rebound of activity and return to normality compared to the Eurozone.

> The yen was amongst the weakest developed market currencies in January. The Bank of Japan, like the other central banks, conveyed a message of staying the course at it latest meeting. However, Japanese PM Suga has nominated a known reflationist to the BOJ board. If appointed, this could tip the balance within the board and open the door for more explicit fiscal and monetary coordination to reach the 2% inflation target, which would be negative for the yen.

All market data to 29 January unless mentioned otherwise

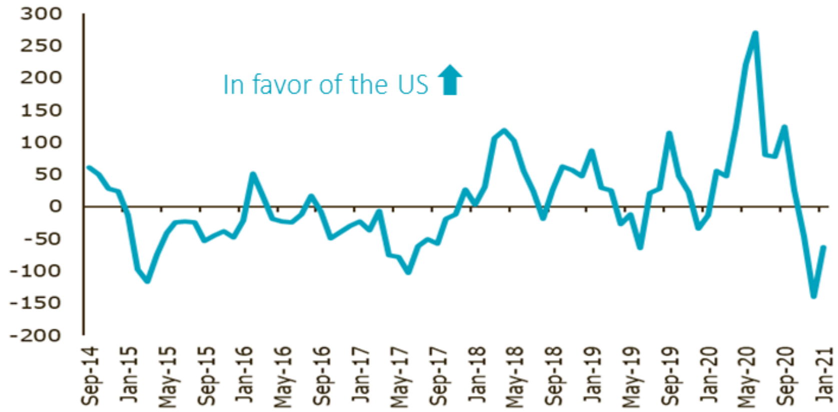
FX (II)

Japanese investors: Hedged foreign bonds are attractive again



Source: Bloomberg, UBS

Economic surprises are turning in favor of the US



Source: Bloomberg, Robeco

> On the other hand, flows dynamics are turning positive for the yen. The Nikkei has been one of the best performing equity indexes over the last six months, and with valuations far from stretched and the global macro backdrop more favorable for value-oriented equities, this momentum look set to continue. This will not go unnoticed by foreign equity buyers, who in general don't hedge their currency exposure. Also, FDI outflows have been decelerating, and it has become interesting again for Japanese investors to buy foreign bonds on a hedge basis instead of JGBs. So, it is highly likely that unhedged purchases of foreign bonds will decline.

> Both the ECB and Fed didn't make any comments at their last meetings that pointed to major policy shifts. Things do seem to be moving against the Eurozone currently. Not only are the lockdowns more severe, but the prospects of them being eased or lifted anytime soon seem limited. Europe is lagging in vaccinating its population compared to the US and UK. Also, political risk returned after the Italian prime minister lost his majority. While the impact on the market was not massive, it is a reminder that political risk remains part of the Eurozone political structure.

> In contrast, the reflation theme is gathering momentum in the US. The blue sweep in the elections makes it more likely that President Biden will be able to deliver a good part of his USD 1.9 trillion stimulus proposal. What is also positive for the US dollar is that on a forward basis, its real yield continues to move in its favor. This means improving prospects in the US, while in Europe, such prospects are more likely to fall short in the near term. We currently hold no currency positions.

Heat Map Asset Returns (in euros)

MULTI ASSET	1mo	3mo	YTD	1YR	3YR	5YR
Oil Index (USD)	7.5%	44.1%	-57.3%	-49.6%	-24.9%	-10.3%
GSCI Commodities (USD)	5.7%	19.5%	-26.0%	-18.1%	-7.0%	-2.1%
Emerging Markets (LC)	3.8%	18.7%	23.6%	27.9%	7.1%	14.7%
Emerging Markets (UH, EUR)	3.8%	15.9%	12.7%	16.7%	5.3%	12.4%
Cash (EUR)	0.0%	-0.1%	-0.5%	-0.5%	-0.4%	-0.4%
Global high yield (H, EUR)	-0.1%	6.2%	3.8%	3.6%	2.4%	5.7%
Global real estate (UH, EUR)	-0.2%	4.6%	-14.5%	-15.8%	1.7%	1.2%
MSCI World (UH, EUR)	-0.3%	11.6%	6.0%	5.3%	9.2%	10.8%
EMD hard currency (UH, EUR)	-0.4%	3.5%	-6.1%	-6.1%	2.0%	4.0%
MSCI World local currency	-0.8%	15.0%	12.6%	12.9%	8.6%	12.6%
MSCI World (H, EUR)	-0.8%	14.5%	10.9%	11.4%	6.5%	10.8%
Global investment grade bonds (H, EUR)	-0.9%	1.5%	5.8%	3.8%	3.9%	3.7%
Global inflation-linked bonds (H, EUR)	-0.9%	0.5%	7.0%	4.3%	3.7%	3.4%
Global Gov Bonds (H, EUR)	-0.9%	-0.8%	3.9%	1.7%	3.1%	1.7%
EMD local currency (UH, EUR)	-1.2%	4.3%	2.3%	0.9%	2.1%	4.5%
Gold (USD)	-2.6%	-2.1%	17.8%	13.3%	9.7%	9.3%

Fixed Income	1mo	3mo	YTD	1YR	3YR	5YR
High Yield Europe (EUR)	0.5%	5.4%	2.8%	2.6%	3.2%	5.4%
Inflation-linked US (UH, USD)	0.3%	2.6%	11.4%	9.1%	6.3%	4.8%
High Yield US (UH, USD)	0.3%	6.3%	7.5%	7.4%	6.1%	9.0%
Inflation-linked Europe (EUR)	0.3%	2.4%	3.5%	1.5%	3.0%	2.6%
Europe Senior Financials (EUR)	-0.1%	1.4%	2.3%	1.3%	2.3%	2.7%
EMD hard currency (UH, EUR)	-0.1%	-0.1%	-1.9%	-4.3%	5.7%	4.2%
Investment Grade Europe (EUR)	-0.1%	1.1%	2.7%	1.5%	2.6%	2.8%
Europe Non-financials IG (EUR)	-0.1%	0.9%	2.9%	1.6%	2.8%	2.9%
Euro Covered Bonds (EUR)	-0.2%	-0.3%	1.7%	0.6%	1.8%	1.3%
Japan Gov Bonds (H, JPY)	-0.3%	-0.2%	-1.5%	-2.0%	0.6%	0.8%
German Gov Bonds (EUR)	-0.5%	-1.0%	2.5%	0.5%	3.0%	1.6%
Spain Gov Bonds (EUR)	-0.5%	0.1%	3.8%	2.1%	4.6%	3.7%
EMD local currency (UH, EUR)	-0.6%	2.1%	-5.0%	-5.4%	3.1%	4.0%
Italy Gov Bonds (EUR)	-0.7%	0.7%	7.2%	3.9%	5.2%	3.3%
France Gov Bonds (EUR)	-0.7%	-0.9%	3.8%	1.3%	3.8%	2.4%
Global Gov Bonds (H, EUR)	-0.9%	-0.8%	3.9%	1.7%	3.1%	1.7%
US Gov Bonds (H, EUR)	-1.2%	-1.3%	5.8%	3.3%	3.1%	1.2%
Investment Grade US (UH, USD)	-1.3%	1.9%	8.5%	6.0%	6.9%	6.4%

Equities: Country Indices	1mo	3mo	YTD	1YR	3YR	5YR
China (HKD)	7.4%	13.4%	39.0%	46.0%	7.4%	19.9%
Asia ex Japan (LC)	4.5%	18.8%	27.8%	33.0%	7.3%	15.3%
Korea (KRW)	3.9%	34.1%	37.7%	40.3%	6.7%	11.8%
Hong Kong (HKD)	3.9%	17.5%	3.6%	11.0%	-1.6%	11.4%
Emerging Markets (LC)	3.8%	18.7%	23.6%	27.9%	7.1%	14.7%
Emerging Markets (EUR)	3.8%	15.9%	12.7%	16.7%	5.3%	12.4%
Netherlands (EUR)	2.0%	19.3%	5.4%	8.1%	4.4%	8.1%
Japan (JPY)	0.8%	20.6%	19.2%	22.7%	8.4%	11.7%
Australia (AUD)	0.3%	11.8%	1.5%	-3.3%	6.7%	9.7%
Global equities (EUR)	-0.3%	11.6%	6.0%	5.3%	9.2%	10.8%
Russia (RUB)	-0.4%	21.8%	7.6%	5.4%	12.7%	12.9%
Global equities (LC)	-0.8%	15.0%	12.6%	12.9%	8.6%	12.6%
UK (GBP)	-0.8%	15.5%	-12.2%	-9.2%	-1.4%	5.1%
USA (USD)	-1.0%	14.0%	17.2%	17.2%	11.7%	16.2%
Switzerland (CHF)	-1.1%	10.6%	3.3%	2.0%	7.9%	8.6%
Eurozone (EUR)	-1.9%	17.9%	-5.0%	-2.4%	1.3%	5.4%
Germany (EUR)	-2.1%	16.2%	1.4%	2.1%	0.6%	6.5%
France (EUR)	-2.6%	17.9%	-7.4%	-4.8%	2.5%	7.4%
Italy (EUR)	-2.6%	20.8%	-5.8%	-7.3%	0.5%	6.6%
India (INR)	-3.1%	16.9%	13.6%	15.0%	10.1%	14.7%
Brazil (BRL)	-3.3%	22.5%	-0.5%	-0.4%	10.7%	23.3%
Spain (EUR)	-3.7%	21.1%	-16.4%	-15.0%	-6.7%	0.6%

FX versus the EUR	current level	1M	3M	YTD	12M	1m	3m	1yr	1yr
EURO/CHINA RENMINBI	7.81	2.4%	0.1%	0.1%	-2.0%	8.00	7.82	7.66	7.66
EURO/INDONESIAN RUPIAH	16999.98	1.6%	0.4%	-9.3%	-13.0%	17284.80	17065.58	15050.07	15050.07
EURO/INDIAN RUPEE	88.40	1.5%	-1.8%	-10.4%	-12.3%	89.76	86.83	78.74	78.74
EURO/BRITISH POUND	0.89	0.9%	1.6%	-4.7%	-5.4%	0.89	0.90	0.84	0.84
EURO/NORWEGIAN KRONE	10.39	0.9%	6.5%	-5.5%	-1.8%	10.48	11.11	10.21	10.21
EURO/US DOLLAR	1.21	0.7%	-4.2%	-8.2%	-9.4%	1.22	1.16	1.11	1.11
EURO/HONG KONG DOLLAR	9.41	0.6%	-4.2%	-7.8%	-9.2%	9.47	9.03	8.62	8.62
EURO/CANADIAN DOLLAR	1.55	0.3%	0.1%	-6.4%	-5.6%	1.55	1.55	1.47	1.47
EURO/SINGAPORE DOLLAR	1.61	0.1%	-1.3%	-6.9%	-6.5%	1.61	1.59	1.51	1.51
EURO/SWISS FRANC	1.08	0.0%	-1.2%	0.4%	-1.1%	1.08	1.07	1.07	1.07
EURO/AUSTRALIAN DOLLAR	1.59	0.0%	4.2%	0.6%	4.2%	1.59	1.66	1.66	1.66
EURO/JAPANESE YEN	127.13	-0.8%	-4.3%	-4.4%	-5.8%	126.18	121.93	120.17	120.17
EURO/SWEDISH KRONA	10.15	-1.0%	2.0%	3.3%	4.9%	10.05	10.36	10.67	10.67
EURO/RUSSIAN RUBLE	91.98	-1.5%	0.6%	-32.3%	-29.6%	90.64	92.50	70.97	70.97
EURO/SOUTH KOREAN WON	1355.73	-1.7%	-2.6%	-4.6%	-3.4%	1332.83	1321.85	1311.24	1311.24
EURO/BRAZIL REAL	6.64	-4.7%	0.8%	-47.2%	-39.8%	6.34	6.69	4.75	4.75

Source: Bloomberg

All market data to 29 January unless mentioned otherwise

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