

## Speculation on interest rate cut timing sparks market volatility

Poor employment data at the start of August strongly suggested that US economic growth is slowing. This has all but confirmed there will be multiple US interest rate cuts this year. This sparked market volatility at levels not seen since Covid. Encouragingly, volatility creates opportunities for active management, as assets can become temporarily mispriced.

### Highlights



#### Equities

Investors rotated into quality defensive stocks in the utilities and staples sectors.



#### Bonds

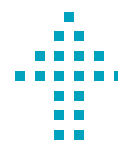
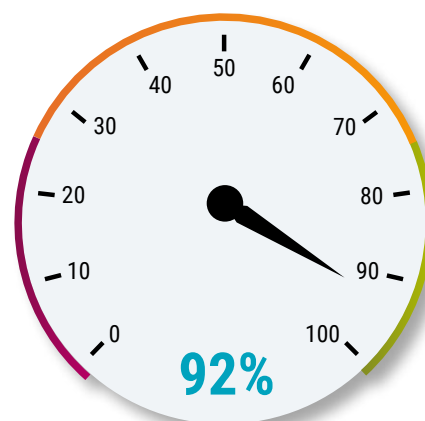
Rising US rate cut expectations brought strong returns for US government bonds and credits.



#### Alternatives

Gold passed USD 2,500 for the first time as investors turned to safe havens for protection.

### Robeco Bull & Bear indicator



**+1%**

vs. last month

Market's risk mode

## Buy or sell? Our highest conviction views



### We're overweight equities

We took advantage of market volatility to buy the dip and add to equities. Regionally, we added to Europe and reduced the UK. We retain an overweight in health care for its defensive properties.



### We're underweight IG credits

We believe that credit spreads are priced almost to perfection and there is limited upside potential from this point. Our preference is for short duration investment grade bonds.

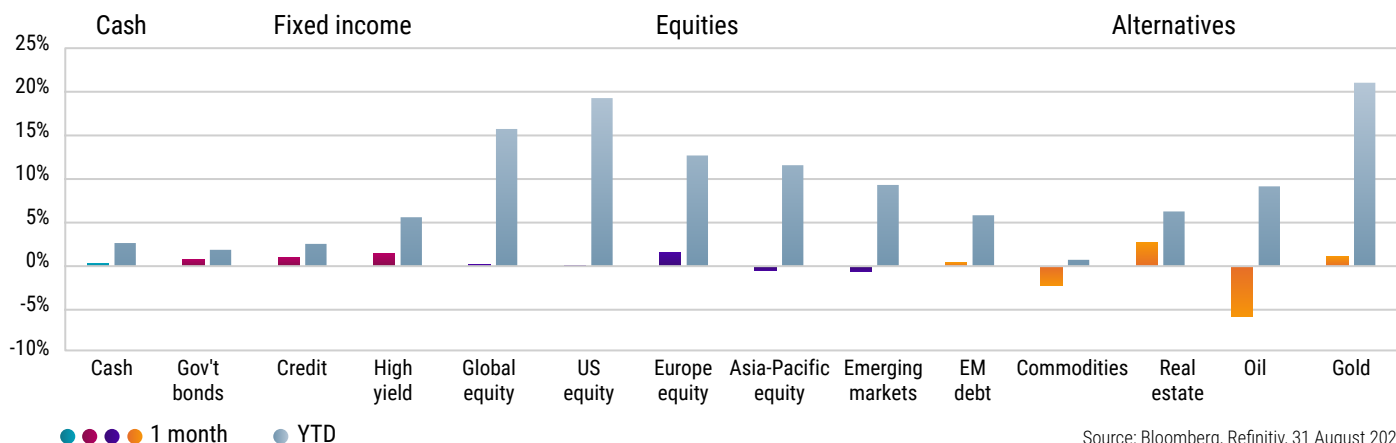


### We've added to gold

We sold our broader exposure to commodities and added to our gold exposure. This helps to add some protection if we see more market volatility going forward.

# Asset classes compared

## Asset class performance: August and YTD



Source: Bloomberg, Refinitiv, 31 August 2024.  
Note asset class returns are in euros.



### Rollercoaster ride that ended it where it started

- Despite the rise in volatility, concerns about softer economic growth and an unwinding of the Japan carry trade, equities indices ended higher.
- Quality and defensive stocks were the sweet spot, led by health care, utilities and staples. Rate-sensitive real estate and mid-caps also did well.



Moved to slightly overweight



### Rising expectations of rate cuts helped bonds

- It was a strong month for fixed income, as government bonds, credit, high yield and EM debt all outperformed the broader equity market in euro terms.
- The change in US interest rate cut expectations was much more significant than was seen in Europe, and so the US outperformed European fixed income.



Retaining a credit underweight



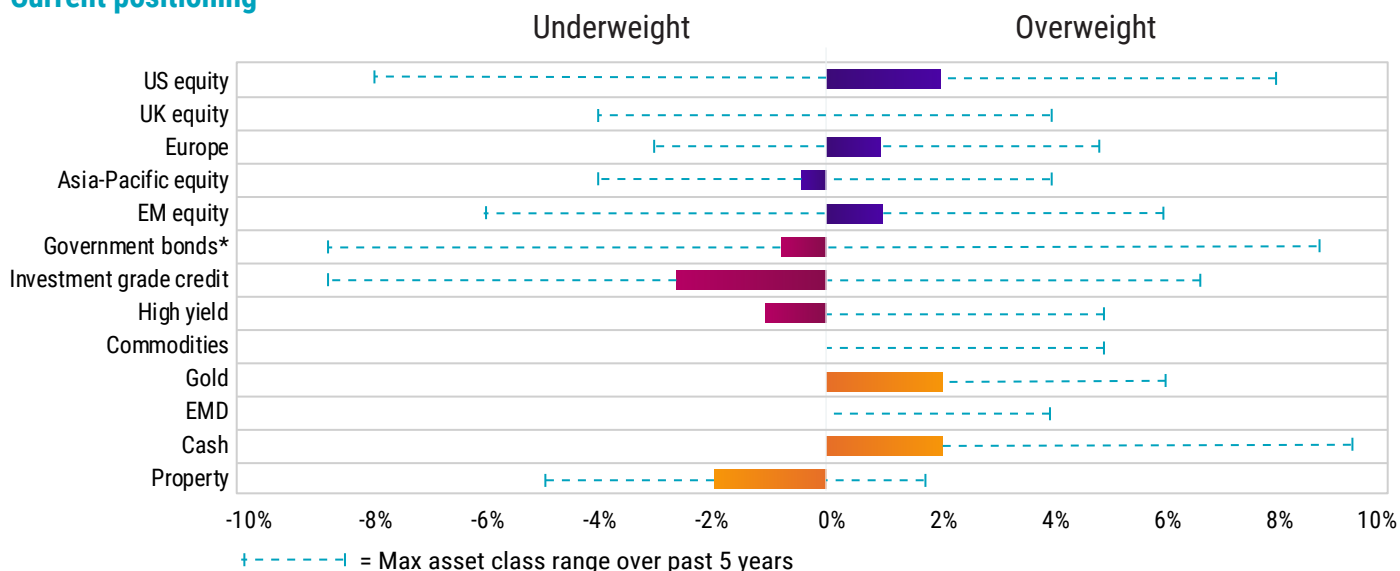
### Commodities sold off but gold rallied

- Gold surpassed USD 2,500/oz for the first time, outperforming bonds and cash. EM central banks have significantly increased their gold reserves.
- Speculation over potential macro weakness was felt more acutely in commodities compared with other asset classes.



We sold commodities and added to gold

## Current positioning



\* Includes Treasury, MBS, ABS, Agency, non-corporates. Note reference benchmark is 50% MSCI ACWI & 50% Bloomberg Global Aggregate Index

Theme of the month

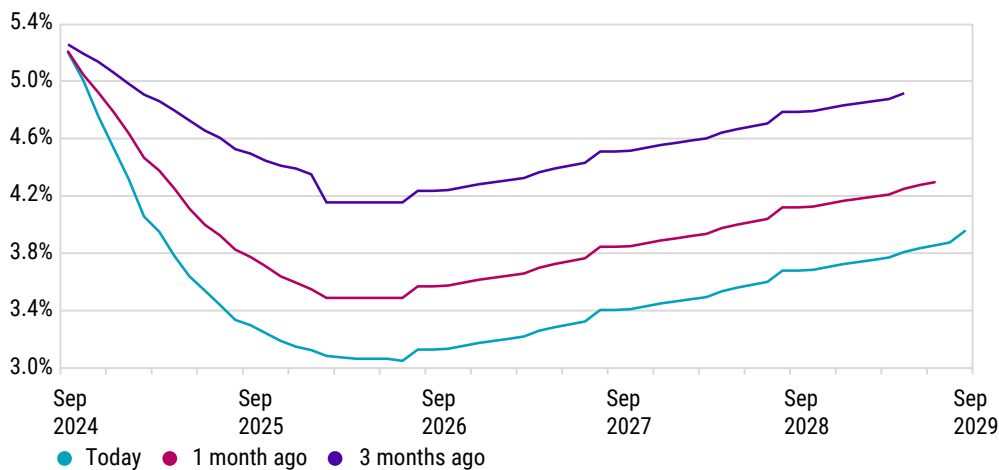
# The elephant in the room

*“A Buddhist text tells how blind men are asked to touch different parts of an elephant, an animal unknown to them. They come up with different definitions. We see this in inconsistent asset class assumptions over the path of the global economy.*

Colin Graham – Head of Robeco Sustainable Multi-Asset Solutions



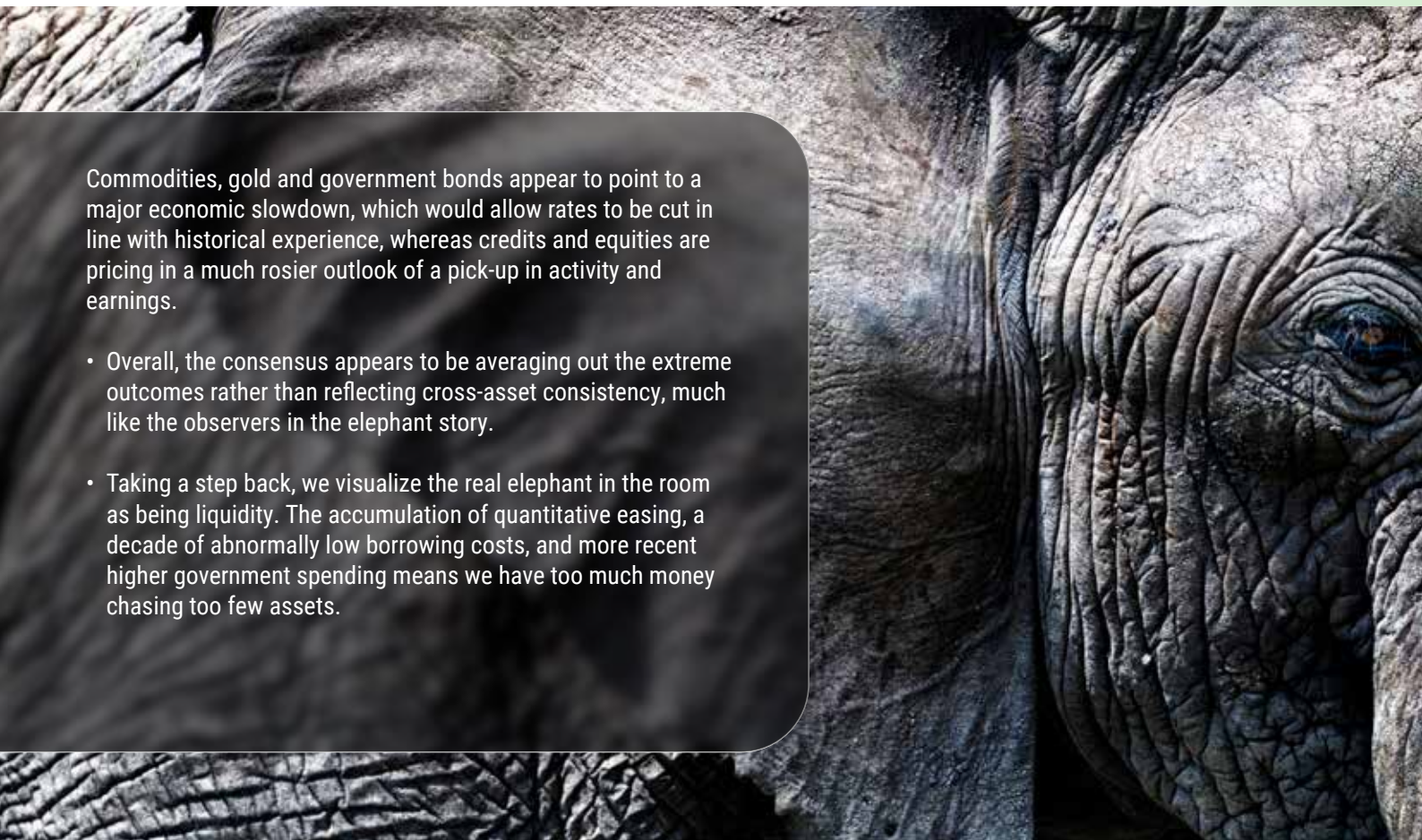
## US interest rate expectations have fallen sharply



Source: Robeco, Refinitiv, 1 September 2024

Commodities, gold and government bonds appear to point to a major economic slowdown, which would allow rates to be cut in line with historical experience, whereas credits and equities are pricing in a much rosier outlook of a pick-up in activity and earnings.

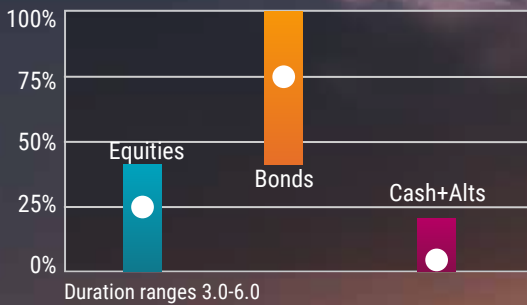
- Overall, the consensus appears to be averaging out the extreme outcomes rather than reflecting cross-asset consistency, much like the observers in the elephant story.
- Taking a step back, we visualize the real elephant in the room as being liquidity. The accumulation of quantitative easing, a decade of abnormally low borrowing costs, and more recent higher government spending means we have too much money chasing too few assets.





# Robeco Multi-Asset strategies

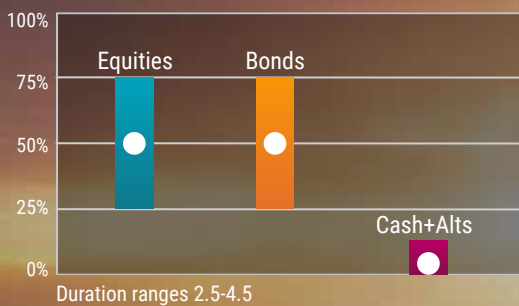
## Sustainable Income Allocation



Income  $\geq$  5%  
Volatility 7%

- Stable income + capital appreciation
- Focus on downside protection
- 4-star Morningstar rating

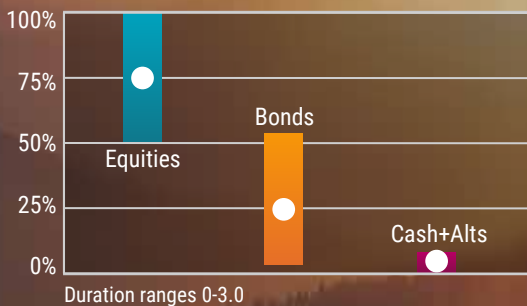
## Sustainable Diversified Allocation



Return  $\geq$  6%  
Volatility 10%

- Stable capital growth over long term
- Balanced mix of bonds and equities
- 4-star Morningstar rating

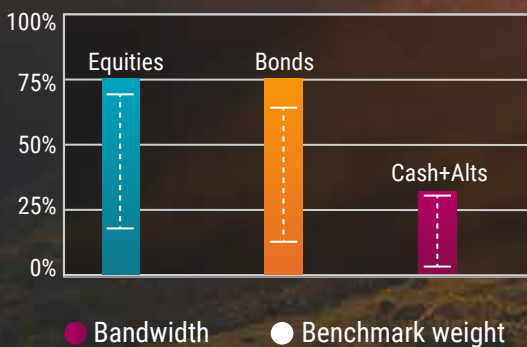
## Sustainable Dynamic Allocation



Return  $\geq$  7%  
Volatility 12%

- Equity-like growth with less volatility
- Capital growth focus
- 4-star Morningstar rating

## Flexible Allocation



Cash +4%  
Volatility 6-12%

- Total return approach
- Active allocation from '5y Exp. Returns'
- Flexible alpha hunting strategy

● Bandwidth ● Benchmark weight | - - - | Max 5-year range

For more information, please visit our Multi-Asset website

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