ROBECO
The Investment Engineers

Multi-asset market outlook

Bitcoin as digital gold – a multi-asset perspective

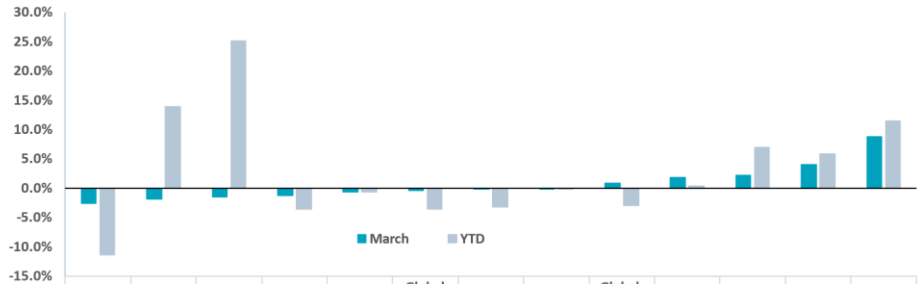
April 2021

For professional investors

Sustainable Investing Expertise by
ROBECOSAM

General overview

March: a terrible month for commodities



	Gold	GSCI Commodities	Oil Index	Global Inv grade bonds	Global high yield	Global Gov Bonds (H EUR)	EMD LC (UH EUR)	Cash	Global Infl linked bonds	EMD HC (UH EUR)	Emerging Markets (EUR)	MSCI World (H EUR)	Global real estate
March	-2.6%	-1.8%	-1.4%	-1.3%	-0.6%	-0.3%	-0.1%	0.0%	0.8%	1.8%	2.2%	4.0%	8.8%
YTD	-11.4%	13.9%	25.1%	-3.6%	-0.6%	-3.5%	-3.1%	-0.1%	-2.9%	0.4%	7.0%	5.8%	11.5%

Source: Bloomberg, Robeco

Positions: still reflationary but more selective

	Portfolio	Benchmark	Active
Equities Developed Markets	25.00%	25.00%	0.0%
Equities Emerging Markets	5.00%	5.00%	0.0%
Real Estate Equities	5.00%	5.00%	0.0%
SPX (US Equities)	-4.00%	0.00%	-4.0%
STXE 600 (EUR) Pr (Europese aa	2.00%	0.00%	2.0%
Nikkei 225 (Japanese equity)	2.00%	0.00%	2.0%
Commodities	7.50%	5.00%	2.5%
Global treasuries	27.50%	27.50%	0.0%
US Treasuries	-3.50%	0.00%	-3.5%
Investment Grade Corp Bonds	18.00%	20.00%	-2.0%
High Yield Corp Bonds	5.00%	5.00%	0.0%
Emerging Market Bonds LC	5.00%	5.00%	0.0%
Cash	5.50%	2.50%	3.0%

Source: Robeco

> While fixed income markets mainly remained under pressure, they were not the worst performing asset class in March. That honor went to commodities. After leading the way over the past months, commodities came under pressure in March. The decline was broad based. Crude oil lost more than 10% of its value in four days. The exact reason why this happens remains unknown. The slowly strengthening US dollar and the prospects of slower demand due to less expansive policies in China, along with an increase in coronavirus infections in Europe, probably played a part.

> The top performer was real estate. This equity sector lagged the rebound seen in equities over the past months but started to make an impressive comeback. Equities in general also did quite well in March. Within equity markets, however, there were substantial performance differences. Small caps and value stocks did very well while growth stocks had a difficult month.

> We continue to run a procyclical portfolio that benefits from economies that continue to reflate. We did however become more selective on how to play this. The slowly increasing US dollar triggered us to close our exposure to emerging markets in both equities and fixed income. We added to our regional equity trade in which we prefer exposure to Europe and Japan at the expense of US equities. The former markets are more skewed towards value stocks, which is an equity style we think will continue to do well. No changes were made to our exposure to commodities, Investment grade corporate bonds and US Treasuries.

All market data to 31 March unless mentioned otherwise

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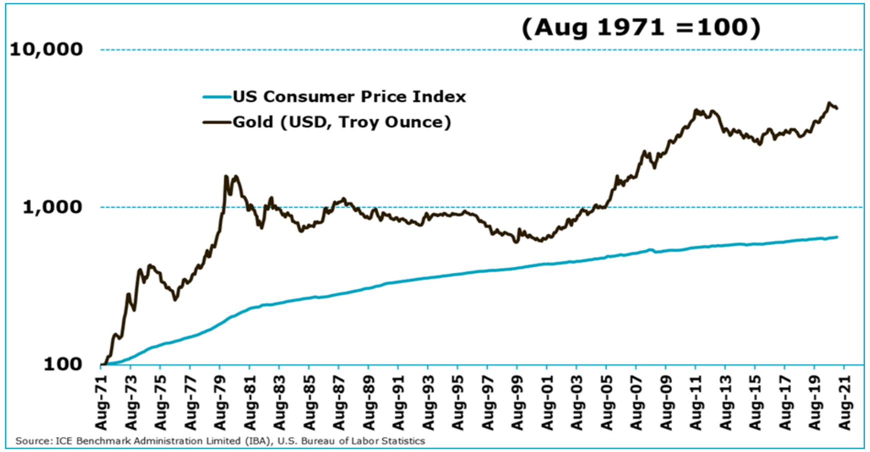
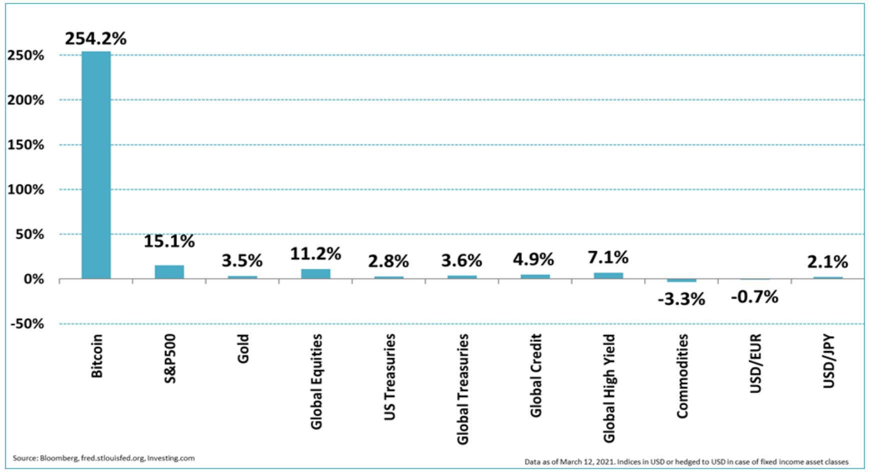
Theme of the month

An historical perspective: gold versus inflation



Source: ICE Benchmark Administration Limited, US Burea

Average annualized returns: exceptional returns for bitcoin



Source: Bloomberg, Fred St. Louise Fed, Investing.com & Robeco

Bitcoin as digital gold – a multi-asset perspective (I)

> Bitcoin makes the headlines every day, due mainly to its meteoric rise and unrivaled volatility. In recent months, a clear narrative that bitcoin is becoming a store of value in the form of digital gold has developed. Recently, Fed Chairman Jay Powell referred to bitcoin as "essentially a substitute for gold rather than for the dollar". Just like gold, bitcoin is scarce and durable. In addition, bitcoin exhibits high portability, is easily transactable and programmable. What it lacks of course, is a long history of being perceived as a store of value.

> In our view, the discussion about bitcoin's lack of intrinsic value is mostly irrelevant. As with diamonds, art, stamps, gold and the US dollar, bitcoin does not provide cash flows. Yet, most of these assets are considered to be a store of value. Since the end of the gold standard in 1971, gold has significantly outpaced inflation, rising about 7.7% in value per year. This has been accompanied by a realized volatility of 17. Hence, it is flawed to assume that something considered to be a store of value should have a realized return close to inflation with a relatively low amount of risk.

> Since July 2010, when bitcoin first started trading on exchanges, its average return has been an eye-popping 254% per year. That compares to 15% for the S&P 500 Index, the next best-performing asset class. Volatility too is extreme, with an average realized annualized volatility of 114%, almost 10 times as much as equites and gold. Yet, bitcoin's Sharpe ratio is significantly higher than that of other asset classes. And bitcoin's correlation with other asset classes has been close to zero, suggesting sizeable diversification benefits.

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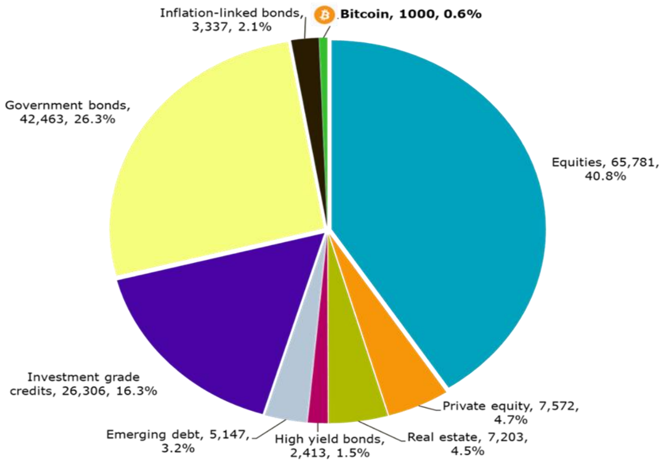
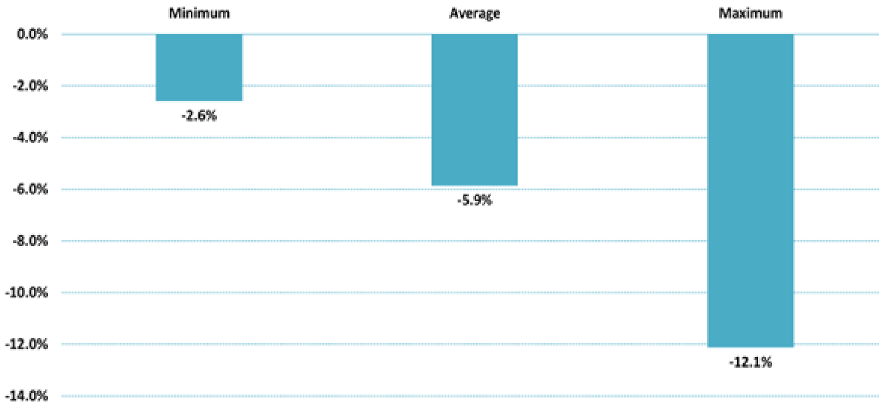
Theme of the month

Global market portfolio: does bitcoin deserve a place?



Source: "The Global Multi-Asser Portfolio, 1959-2012" by Doeswijk, Lam & Swinkels

Allocation trade-off: substituting equity for a bitcoin allocation



Source: Robeco

Bitcoin as digital gold – a multi-asset perspective (II)

> Based on the price of USD 55,000 on 29 March, the market cap of bitcoin is roughly USD 1,000 billion. This translates into a weight of just 0.6% in the Global Multi-Asset Market Portfolio. As we acknowledge bitcoin's potential as digital gold, we assume it reaches the USD 3 trillion market cap of investable gold somewhere in the next 5 to 10 years. This implies an expected return range of 12%-25% per year.

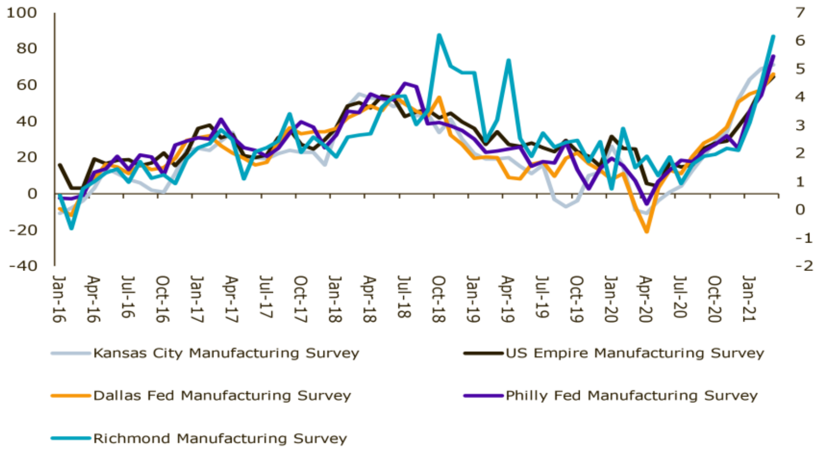
> To judge the attractiveness of bitcoin in the strategic mix, we use our 'smart' mean variance optimization framework in combination with a well-diversified 60/40 portfolio. This framework does not only look at historical data, but also takes into account our '5-year Expected Returns', reducing the risk of extrapolating historical returns. To deal with the relatively high level of uncertainty surrounding bitcoin's characteristics, we look at 36 different combinations of risk, return and correlation.

> Our results are unambiguous. For all 36 combinations of risk-return-correlation, our smart optimization allocates the maximum 2.5% towards bitcoin. This is better than we anticipated, expecting some drop-off as the combination of characteristics 'worsens'. In all 36 combinations, the weight of equities decreases; in some cases, the required reduction tops 10%. Under the restriction that the volatility of the portfolio can't rise, bitcoin's average share of total risk is more than 6%, rising to as much as 15% in some scenarios.

> Based on our impact analysis, together with the fact that bitcoin's volatility is currently still well above our highest estimate of 60%, we believe further capping the maximum weight of bitcoin to 1% is warranted. A 1% weight also better aligns with overall portfolio management, including rebalancing.

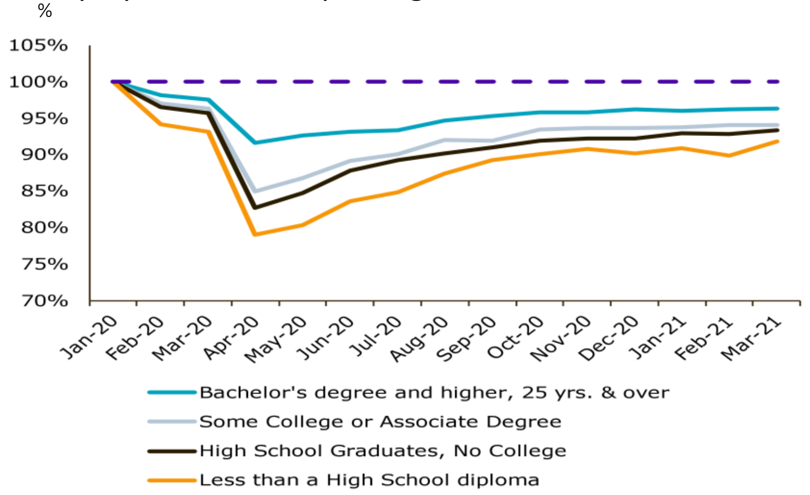
United States

Prices paid index: rising inflationary pressures



Source: Bloomberg, Robeco

Unemployment rate: improving across all cohorts



Source: US Bureau of Labor Statistics, Robeco

> Going into the last Fed meeting there was some speculation that the central bank could signal a change in the hiking path through updated economic projections. This turned out to be unfounded as the path of rate hikes was kept unchanged. What did become clear is that the Fed is positive on the economic outlook. Both inflation and growth expectations were upgraded. The Fed also expects the median-term inflation rate to rise above 2%. Taking the unchanged path for rate hikes into consideration, this means that the Fed is willing to tolerate higher inflation.

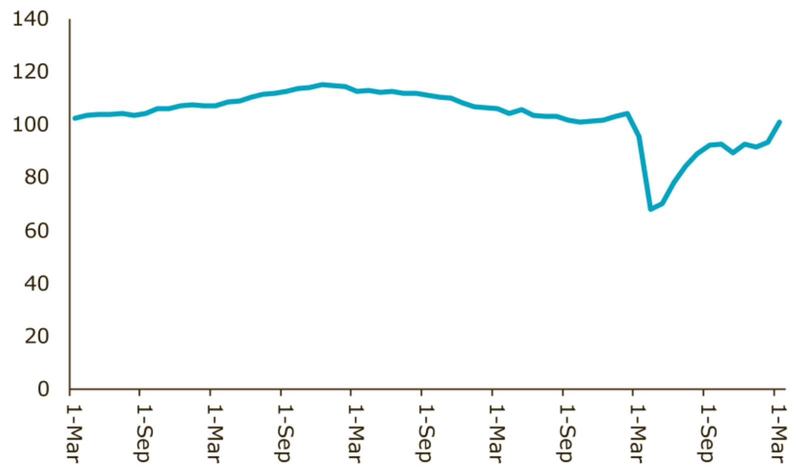
> The current rise in interest rates is not seen as a threat to the recovery but as a sign of improving conditions. The rise therefore is not viewed as having an adverse impact on financial conditions. While current financial conditions are generally seen as being supportive, the Fed will continue to be reactive to market conditions.

> The Fed will only tighten policy when there is substantial progress in actual employment and inflation data. With inflation already moving above 2%, and the expectation that this will remain so in the near to mid term, the focus will be on employment.

> The non-farm payrolls new jobs figure for March almost hit a million. The rapid roll-out of the vaccination program is paying off. The positive news was not only the quantity of the job gains, but also the quality of them. Jobs increased across different cohorts of the population and a broad array of sectors. The positive impact of the reopening is also seen in business confidence – both the ISM manufacturing and non-manufacturing ISM readings increased substantially.

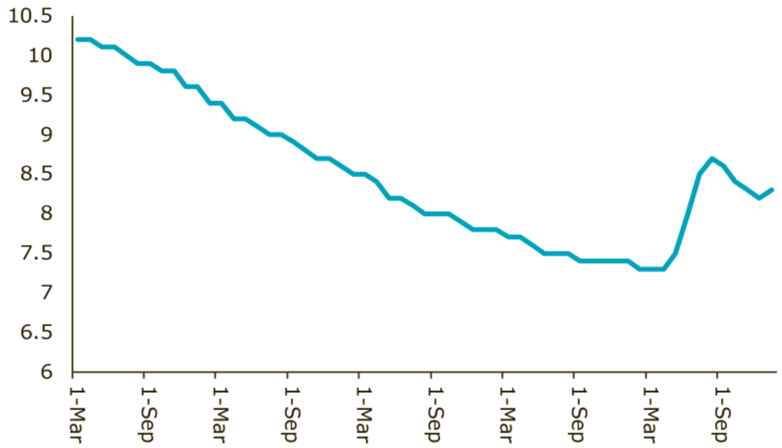
Europe

Eurozone recovery: economic sentiment is at a 13-month high



Source: Blomberg, Robeco

Unemployment: little progress has been made



Source: Refinitiv, Robeco

The Eurozone is still in the midst of the third wave of the Covid-19 pandemic. Restrictions remain in place in most European countries and the risk is that these could get stricter. France has already introduced new lockdown measures. The pace of the vaccination roll-out remains disappointing. On top of the already known supply issues, hesitation to use the AstraZeneca vaccine is growing, due to possible side effects.

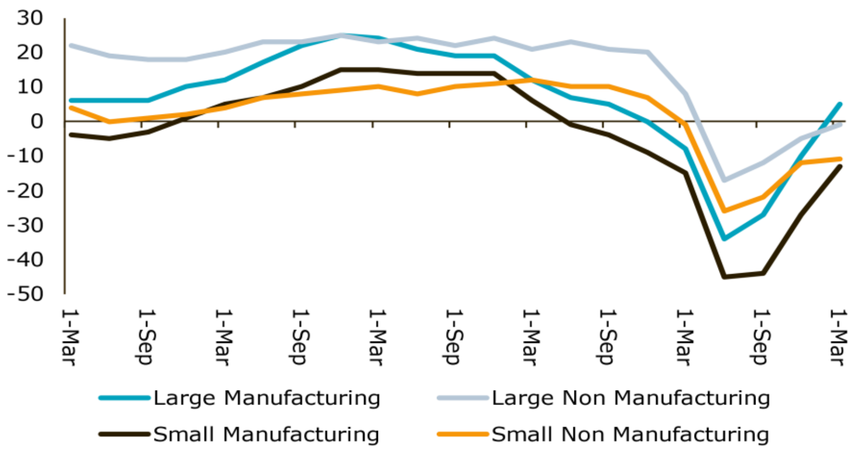
While this will undoubtfully push forward the full reopening of the economy, this has so far not caused the recovery to stall. The economic sentiment indicator of the European Commission came in at 100.9, a 13-month high. Both purchasing manger indices continue to improve. The manufacturing PMI came in at a staggering 62.5 and non-manufacturing was only slightly below 50. Economic surprise indices are also firmly positive, indicating that the numbers continue to come in above expectations.

We think that current developments around the pandemic will only cause short-term headwinds that will only impact the pace of the recovery. The reason for this optimistic view is that there is still sufficient fiscal support and abundant monetary support in place. The ECB has been very clear that it will do everything it can to ensure that financial conditions remain accommodative. A positive side effect of this policy has been that it helped to weaken the euro over the past period.

While we are positive on the outlook, the slack in the economy remains substantial. This is evident by the slow pace of decline in the unemployment rate.

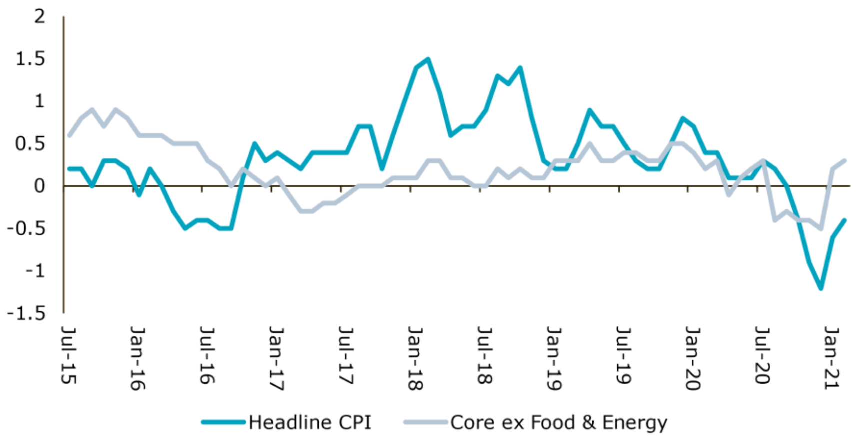
Japan

Japanese Tankan: steadily improving conditions for firms



Source: Bloomberg, Robeco

Inflation continues to improve



>Source: Bloomberg, Robeco

> The Bank of Japan left its policy unchanged at its last meeting. The main focus of the market was on the findings of the policy review the BOJ conducted and less so on the policy decision itself. The outcome of the review was mainly in line with expectations. In short, the BOJ will continue with current policies with the intention of achieving a high-pressure economy that will ultimately lift inflation to 2%.

> The following changes were announced: formalizing the range around the target 10-year yield at 25 basis points; introducing a fixed rate purchase operation to prevent long-term yields rising to destabilizing levels; annual targets for purchasing ETFs and JREITS were scrapped, but the limits for both were maintained, indicating that purchases will be more flexible; and the introduction of a new lending scheme to basically protect the profitability of financial institutions if rates were to be cut. All in all, no major changes, but more of an attempt by the central bank to convince the market that it still has policy room to act forcefully if necessary. While they were tweaked slightly, on the whole the pillars of monetary policy remain quantitative easing, yield curve control and providing finance to the private sector.

> The current condition Tankan survey for both large manufacturers and non-manufacturers improved. The former turned positive for the first time in six quarters. There remains a big disparity between large and small enterprises. Smaller firms continue to struggle in the current environment, probably due to fact that they are more linked to the domestic economy.

> The inflation index excluding both energy and fresh food – the gauge preferred by the BOJ – came in at +0.3% year-on-year. This is still firmly below the target of 2.0%, but it is the second positive reading in a row.

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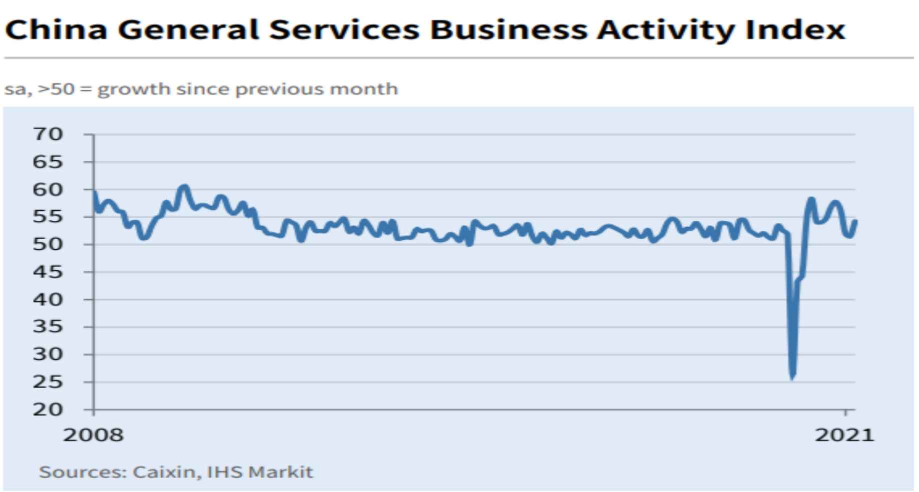
China

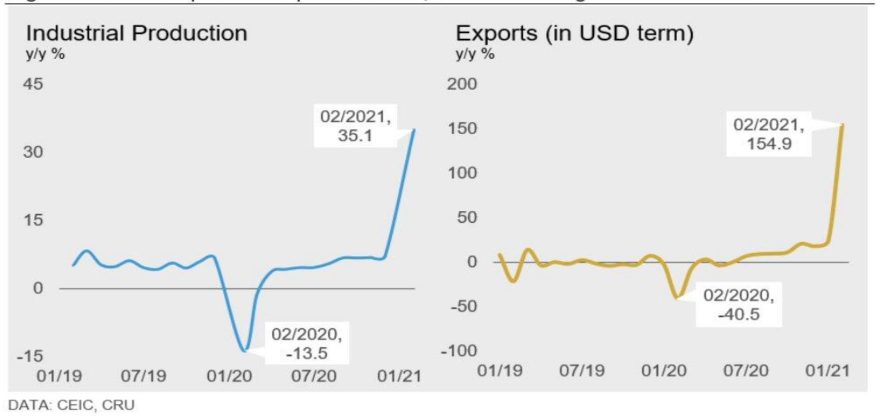
Rate hike appetite should be restrained by subdued inflation



Source: Caixin, IHS Markit

Fading pent-up demand from consumer side

Figure 4: Industrial production performs well, thanks to strong external demand



Source: CEIC, CRU

> Since China signaled some worries about market bubbles in general, and excesses in its own real estate sector in particular, most Chinese macroeconomic data has come in better than expected. The Caixin Services PMI rose to 54.3 in March, against the 52.1 reading expected. Industrial production and retail sales numbers also were better than expected.

> Chinese exports measured in US dollars rose by more 60% year-on-year in February, underpinning the Covid-19-related base effects that we will see for most macro data in the coming months. The growth number was 20 percentage points higher than expected. A strong recovery in global trade is also one of the reasons why the IMF has lifted its 2021 China GDP growth estimate to a formidable 8.4%. The ongoing stimulus in the US and its effects on global activity are of importance here.

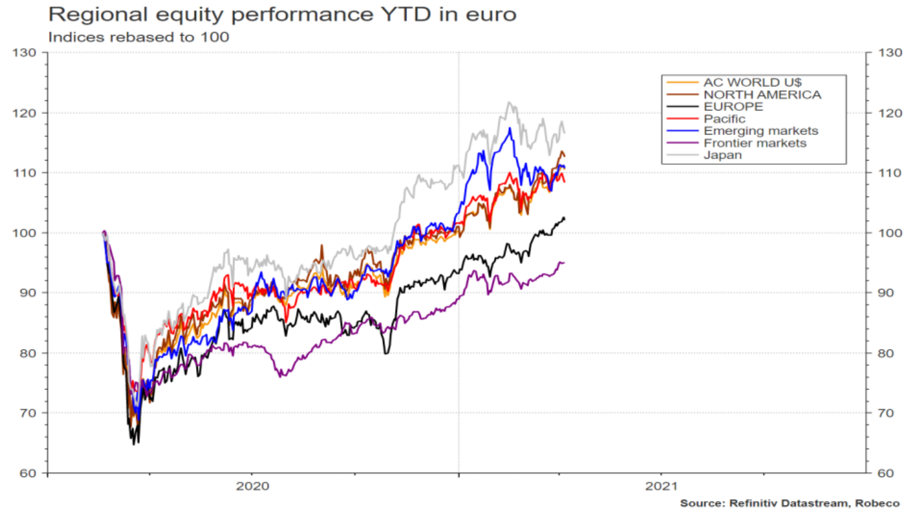
> In recent weeks, comments by Chinese government members suggest that while China will impose curbs in some areas such as housing and credit growth, we are not at the start of a clear tightening cycle.

> Still, the Chinese credit impulse is likely to slow significantly, and affect other countries in the region as well. The credit impulse is also positively correlated with commodity prices. But as we do not expect the impulse to become negative, and as fiscal stimulus in other parts of the world is focused heavily on the real economy, we expect a mitigating effect from here.

> Headline inflation that is currently still in negative territory while core inflation is 1.3% is also now a reason for a stringent tightening cycle. Yet it seems obvious that most of the economic acceleration in China is behind us.

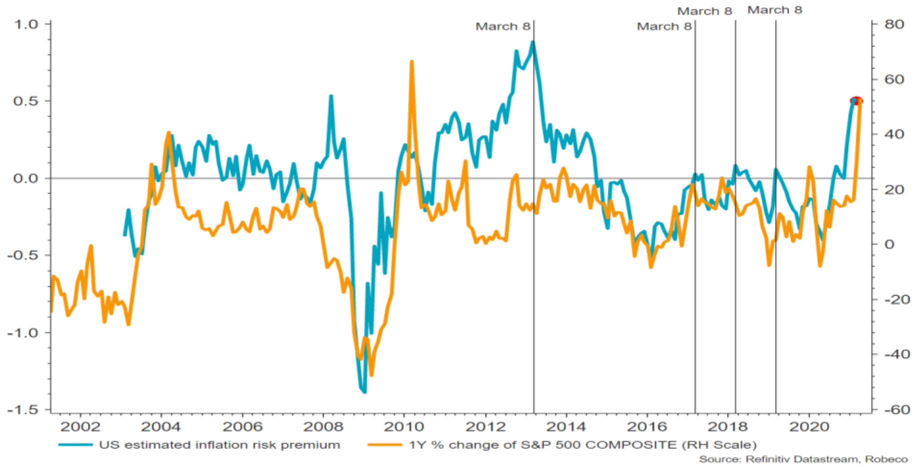
Equities (I)

Equities have fully recouped their losses from the pandemic slide



Source: Refinitiv, Robeco

Annual change in SPX coincides strongly with inflation risk



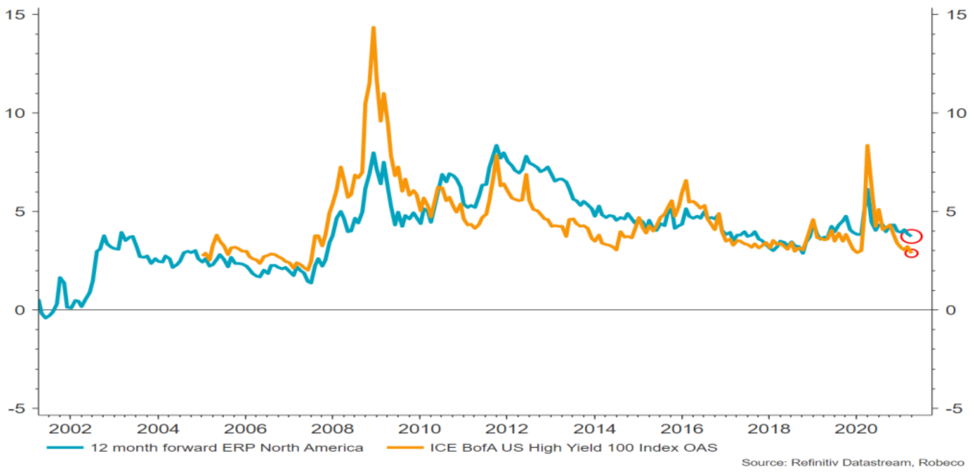
Source: Refinitiv,Robeco

- Positive momentum has been building in equity markets in the last couple of months, with March seeing generous returns of 6.7% for the MSCI World index (unhedged in euros). With the global economy now in the third month of expansion, according to our scenario analysis monitor, and inflationary pressures building due to supply side bottlenecks, cheap assets with inflation hedging capabilities did well. Value stocks and financials that benefit from steepening yield curves experienced strong tailwinds. In regional terms, this translated into large gains for core and peripheral Eurozone countries, with German equities gaining 8.9% in March. European equities were the last region apart from frontier markets to recoup the losses that emerged after the pre-pandemic peak of 19 February 2020.

- With the laggards having now recouped the losses from the Covid-19 recession, the question is how much upside is left. We believe that the reflation trade has somewhat further to run. We prefer to play this from a regional angle rather than an outright overweight in equities. Our cautious approach is inspired by the observation that the equity market is exhibiting late-cycle characteristics such as elevated sentiment, stretched valuation levels, high leverage (margin debt) and the occasional hedge fund or family office getting in trouble as we have seen in the case of Archegos. While the economic expansion is still in its infancy, the equity market has already heavily discounted the future, spurred by unprecedented levels of monetary and fiscal stimulus. The Fed has indicated it will not raise rates as long as specific unemployment targets are met, thereby indicating that it is willing to run the economy hot in the interim. From the fiscal side, the USD 2.25 trillion American Jobs plan is yet another boost for the global economy, and not only the US.

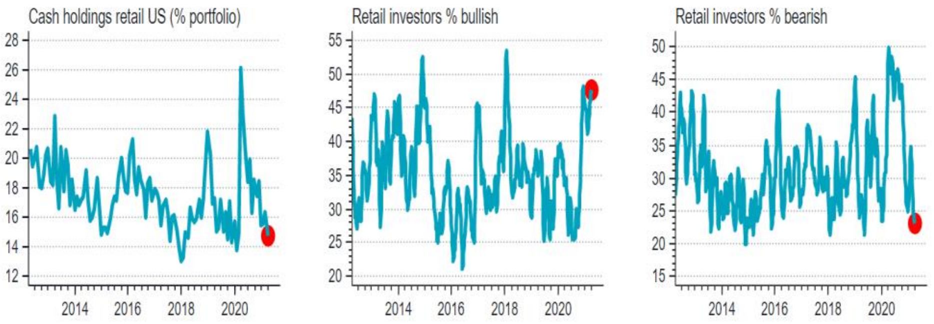
Equities (II)

High yield spread is below the US equity risk premium



Source: Shiller, Robeco

A very high-risk appetite among retail investors



Source: Refinitiv, Robeco

> To some extent, this late-cycle behavior is understandable. As JP Morgan CEO Jamie Dimon wrote in his annual shareholder letter, the US could be booming for the next few years thanks to excess savings, huge deficit spending, more QE, the potential infrastructure bill, a successful vaccine and euphoria around about the end of the pandemic. From a portfolio construction perspective, the 'There Is No Alternative' force is still very much with us. Equities are not only attractive compared to sovereign bonds, but also compared to high yield.

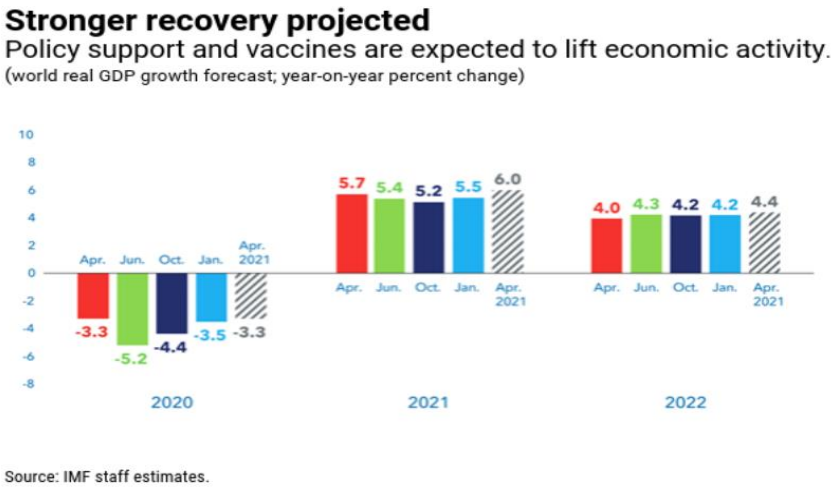
> However, by now, investors have had ample time to digest these positive elements. What is much less discussed is how the stimulus will actually be paid for. The reversal of the Trump 2016 corporate tax cuts to fund the American Jobs plan could give investors some jitters.

> The current extremely high-risk appetite could increase the misallocation of capital, which could lead to another round of idiosyncratic risk events like the Archegos firesale. The reflation trade could enter a consolidation period after a steep repricing of real assets in which the cheap laggards have been scooped up. This could lead to an increased focus of market participants on balance sheet quality.

> For now, seasonality is still positive, and with the IMF lately raising its global GDP growth forecast for 2021 and 2022, the reflation theme still has favorable winds blowing into its sails. We are now neutral on equities, but within our regional equity allocation we have a strong preference for relatively cheap, high-beta regions such as Japan and Europa at the expense of the more duration sensitive and expensive regions like the US.

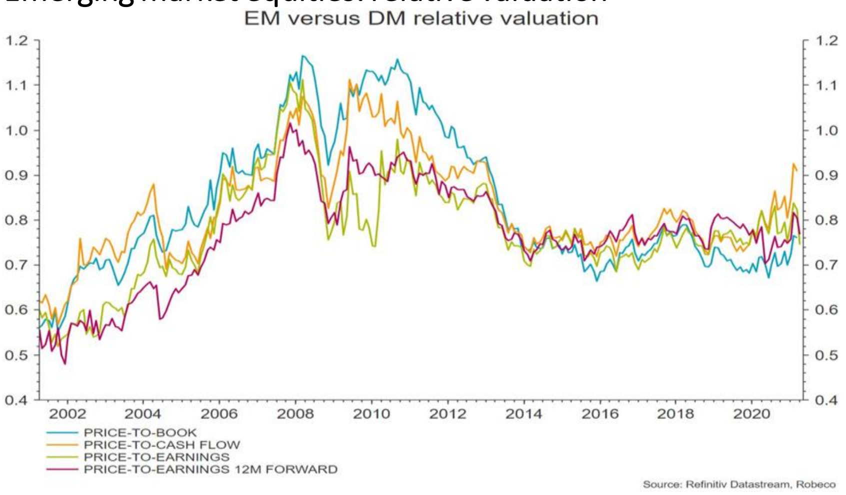
Emerging Equities

IMF: global growth and divergence



Source: IMF

Emerging market equities: relative valuation



Source: Refinitiv, Robeco

> Emerging market equities rose 1.7% in March. While the return was positive, the underperformance of the asset class relative to developed markets was significant at 5%. Since the start of the year, however, emerging markets are still marginally ahead of their developed counterparts. We closed our overweight in emerging markets equities back in February.

> A couple of factors prevent emerging markets from outperforming in the short term, we believe. First, while global growth will be very strong this year and next, as shown in the IMF chart on the top left, the growth differential between EM and DM is below average. This has to do with both the extraordinary fiscal stimulus in developed countries, as well as the longer-lasting impact of Covid-19 in emerging markets. Ex-China, which is expected to grow by 8.4%, growth is pretty much the same. Historically, larger and growing GDP growth differentials have benefited EM.

> Next to that, both the strengthening of the US dollar and higher bond yields put pressure on the relative performance of EM, as this tightens financial conditions. In addition, the rise in the US dollar also halted the rally in commodities, to which EM equities are more vulnerable.

> We do expect emerging market equities to profit from their relatively high operational leverage as global growth picks up. Also, valuation of the asset class is still reasonable from both an absolute as relative view. Yet other segments of the markets, like European equities, are more attractively valued.

> We remain neutral on emerging markets.

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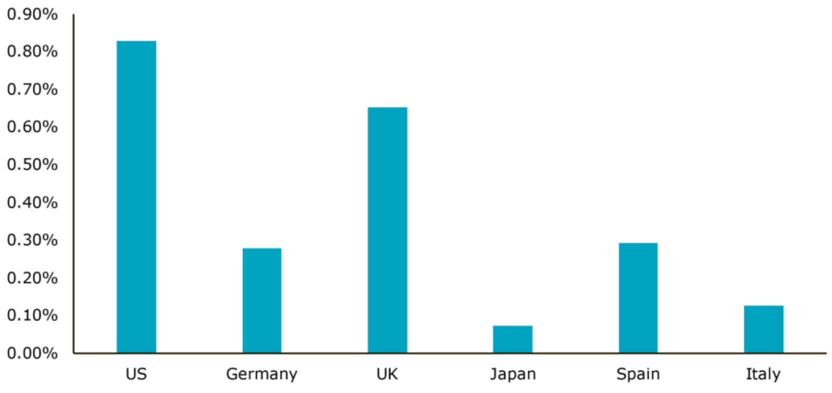
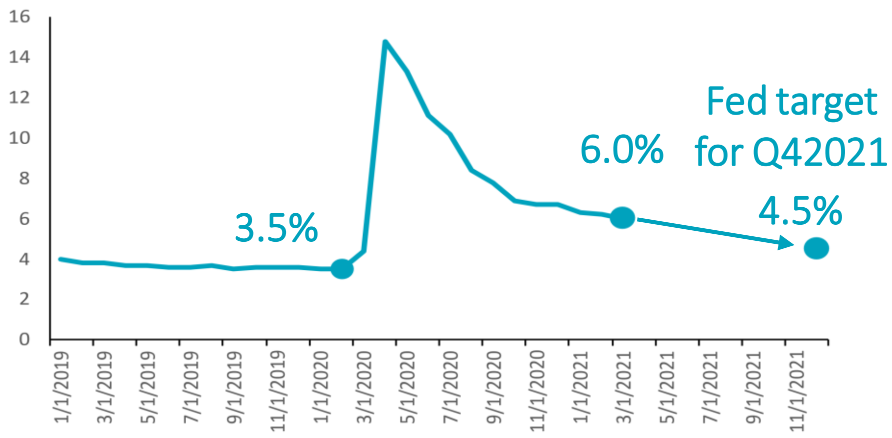
AAA Bonds (I)

10-year yields: a difficult quarter for bonds



Source: Bloomberg & Robeco

Unemployment: The Fed looking for a substantial decline



>Source: Bloomberg & Robeco

> It has been a tough quarter for bonds. Yields were pressured higher across the board as the bond market finally started to reprice the better economic outlook. The main pressure was felt in the longer maturities as central banks continue to hold a strong grip on the shorter maturities through forward guidance. We expect the majority of major central banks not to raise rates anytime soon.

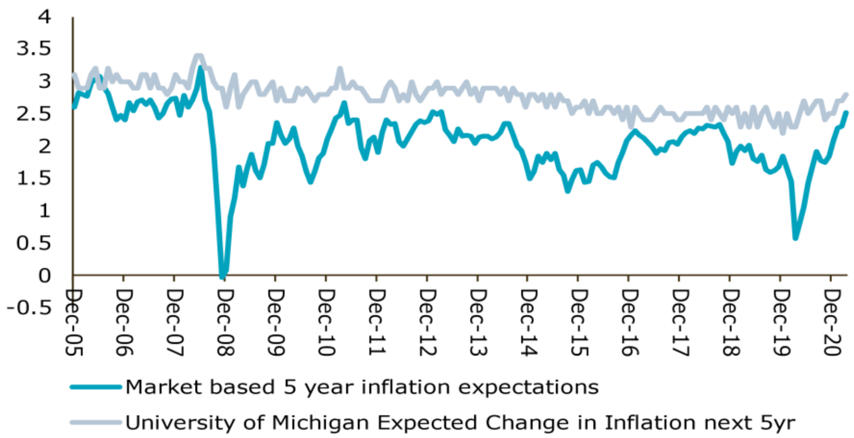
> The Fed expects unemployment to reach 4.5% by the end of the year, more than 1.5% percentage point below the current level. Bringing unemployment down by that much in a relatively short time by itself is a challenge. But the bar is being set even higher, as the Fed doesn't only want to lower the level, but also to accomplish this with a higher participation rate. The latter goal achieves the broader and more inclusive employment mandate the Fed currently has. It does mean we will need substantial increases in non-farm payroll new jobs (on average more than 500,000) over the coming period if the unemployment target is to be reached.

> The rapid roll-out of vaccinations does indeed open the door for a rapid increase in employment, as it enables the return of in-person service jobs, a part of the market that has been hit extremely hard by the pandemic. Still, we find it difficult to see that the Fed will change anything in its policy setting anytime soon.

> It is becoming increasingly clear that the Fed has a strong preference to run the economy hot. In its latest economic projections, the median expectation is that unemployment will dip below its long run level in 2023, but that this will not trigger a rate hike .

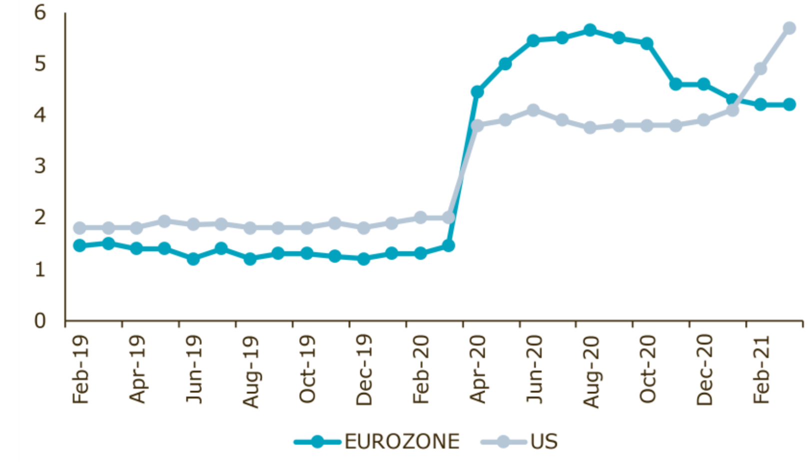
AAA Bonds (II)

Inflation expectations are still anchored



Source: Bloomberg & Robeco

GDP growth: strong growth in 2021 is expected globally



Source: Bloomberg & Robeco

> In the near term, the job markets will give the Fed enough cover to remain dovish. We expect pressure on policy to come from the inflation side of its mandate. Just like everyone else, the Fed expects inflation to rise due to a collection of forces coinciding in the coming period: the base effect, economic reopening and the fiscal package.

> The expectation is that the upward pressure on inflation will be temporary and it is just a phase we need to go through. This is exactly in line with the median outcome of the Bloomberg survey which expects inflation to reach 2.9% in Q3 2021, but then slowly ease back towards 2%. With market and survey-based inflation expectations also contained, Fed policy remains credible.

> The question remains of how the market will ultimately react to growth expectations that are continuously ratcheted upwards. While the US will lead, the improving growth story is a global phenomenon. This has already been confirmed by rising OECD leading indicators and purchasing mangers indices globally. With central banks staying firm in continuing to run monetary policy at emergency levels, something will need to give. This will either be the market pulling forward expected rate hikes, or inflation expectations moving higher. Whichever it is, we think nominal rates have room to rise a bit more.

> We continue to remain underweight in government bonds. Our preference is still to be underweight US Treasuries as we see them as being most vulnerable for a sell-off. This is because the US remains at the center of the reflation story.

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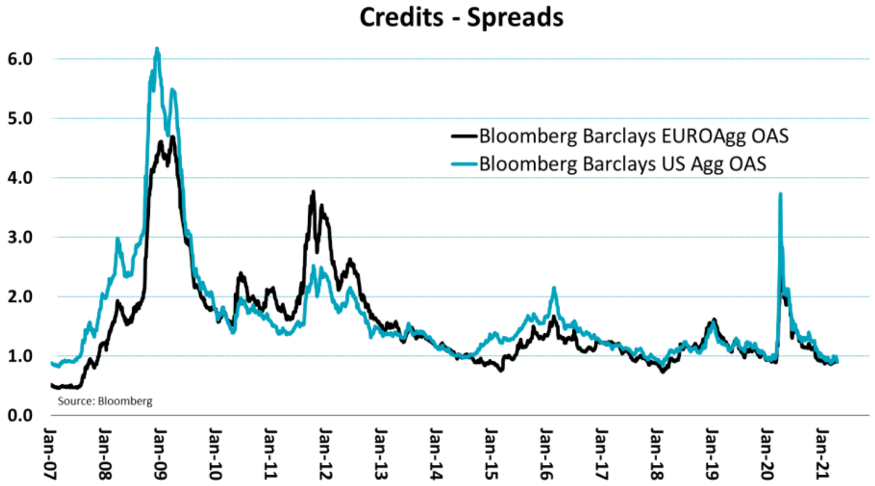
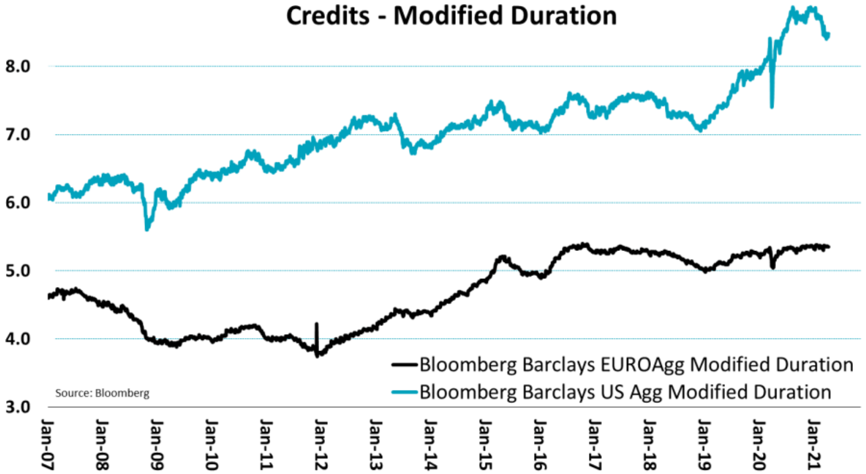
Investment Grade Credits

Investment grade credits: spreads



Source: Bloomberg & Robeco

Investment grade credits: duration

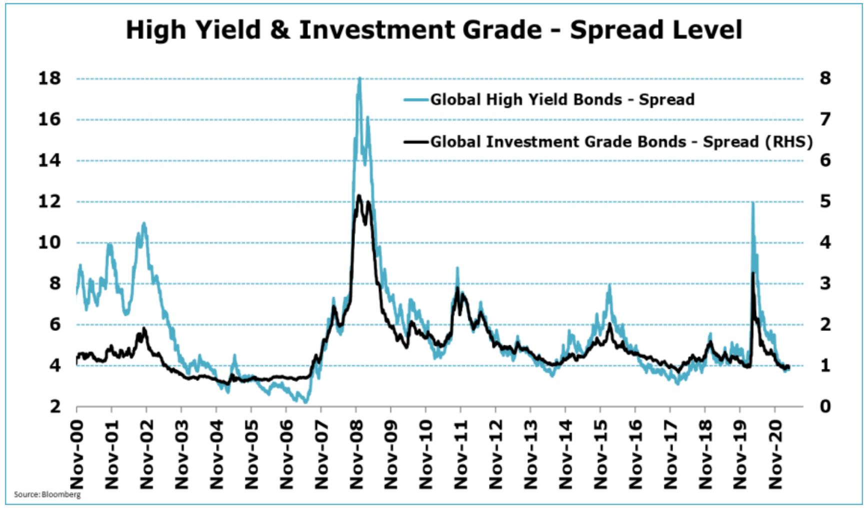


Source: Bloomberg & Robeco

- After a poor February, investment grade bonds had another tough month, realizing a negative return of 1.1%. As a result, corporate bonds were the worst-performing asset class in March. Since the start of the year, corporate bonds are down 3.5%. Spreads were unchanged at 95 basis points.
- The outlook for global investment grade credits remains negative compared to other asset classes. Duration of corporate bonds, which in the US is even higher than for government bonds, remains the main reason for that. With stimulus ongoing, again especially in the US where President Biden aims for another big package, risks of higher inflation and higher bonds yields are real.
- As mentioned before, duration is much lower in Europe. We do believe, however, that bond yields will start to rise here also. The fiscal impulse, while less eye-catching and more fragmented than in the US, is quite formidable as well. In addition, yields are still extremely low, with the average yield-to-worst at just 0.35% at the end of March. The provides little buffer for any increase in bond yields
- While we don't expect spreads to hit the lows of 2004, a bit more tightening is on the horizon. Continuous upward revisions of global GDP growth and ample amounts of liquidity could push spreads down even further. This, however, provides little buffer against rising bond yields.
- We remain underweight global investment grade credits as we expect bond yields to continue their increase, with current spread levels offering little buffer.

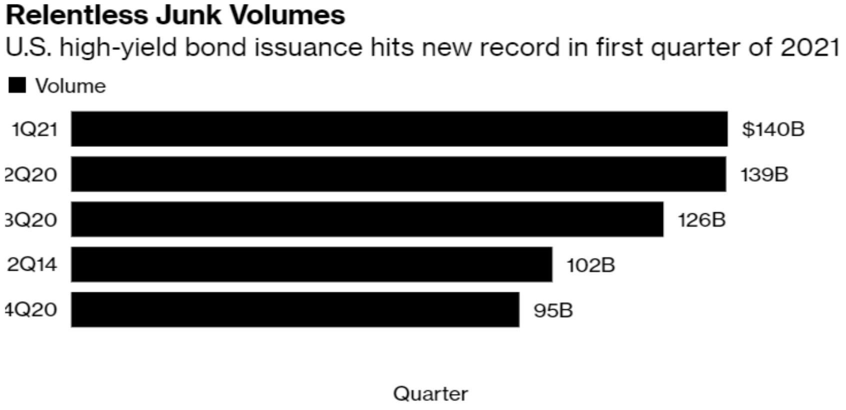
High Yield

Global high yield: relative spread level versus global credits



Source: Bloomberg & Robeco

Global high yield: issuance



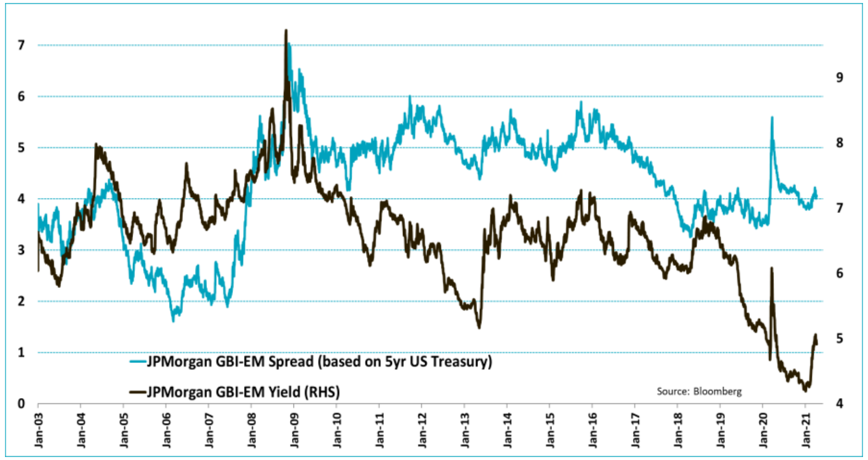
Source: Bloomberg data
Note: 1Q21 volume through afternoon of March 25

>Source: Bloomberg

- Global high yield bonds realized a negative return of 0.4% in March, matching the performance of global government bonds, but outperforming both investment grade bonds as well as local currency emerging market debt. The spread was virtually unchanged at 380 basis points.
- Last month was a good reflection of the fact that high yield bonds exhibit both bond-like as well as equity-like characteristics. In March, the former dominated the latter, and rising bond yields hurt performance.
- Yet with a spread of 380 basis points, the buffer is much bigger compared to investment grade corporate bonds, which also come with much higher duration. With economic growth prospects revised upward again, and even more stimulus on the way, especially in the US, the odds of some further spread tightening has increased. This is a small change from our stance in previous months.
- At the same time, our conviction that bond yields will continue to go up has also increased, and as the March returns show, high yield bonds are not immune from such a development.
- In addition, high yield bond issuance is at record levels. While most of that is related to refinancings, corporate leverage is increasing. With GDP growth set to explode, we do not think issuance and/or leverage pose imminent danger, but we are tracking developments in this area.
- We hold on to our neutral stance on high yield bonds for now.

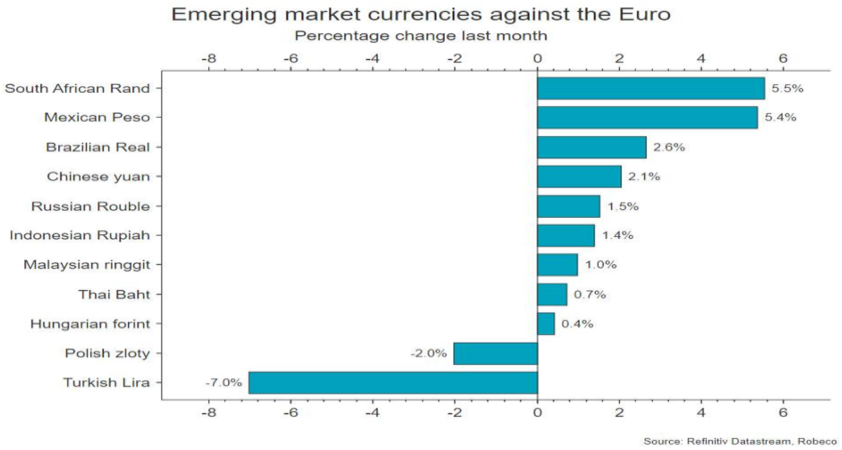
Emerging Market Debt

Emerging market debt in local currency: spread and yield



Source: Bloomberg & Robeco

Emerging market currencies against the euro



Source: Refinitiv, Robeco

> Local currency emerging market bonds realized a negative of return of 1.1% in March. Together with investment grade bonds, EM bonds were the worst-performing asset class. As you can see in the chart on the top left, bond yields continued to rise globally, negatively impacting the return on local currency EM bonds. The spread relative to 5-year US Treasuries was little changed.

> We closed our small overweight in local currency bonds in March. An important reason for this is an increase in conviction that global bond yields can go higher from here. While duration at just over five years is much lower than for developed government bonds and US corporate bonds, rising bond yields will also be a headwind for EM bonds. With monetary stimulus less explicit than in most developed markets, there is also less 'weight' keeping bond yields low.

> Most emerging currencies gained relative to the euro, but this was mostly euro-related. Volatility remains elevated and idiosyncratic risks remain abundant, with Brazil clearly behind on the path to reopening, and political risks still an issue in Turkey. As the chart on bottom left reveals, the Turkish lira was the worst performing major emerging currency, dropping as much as 7% against the euro in March.

> We do think, however, that emerging currencies offer some upside as the global recovery takes hold and carry trades can come back into play. Also, investors tend to discriminate less between EM countries when sentiment is buoyant.

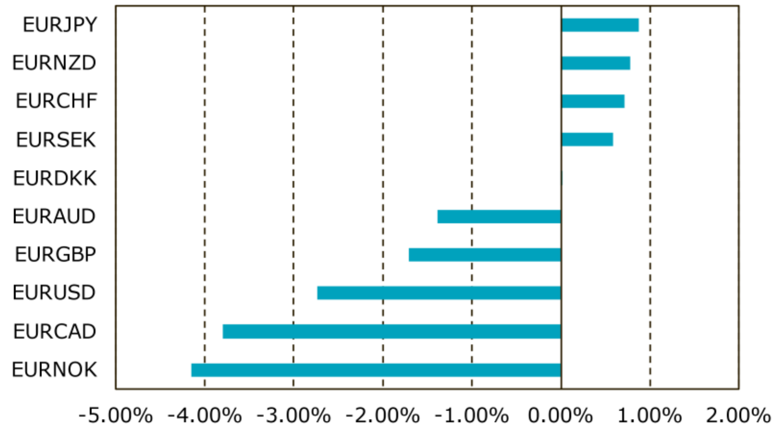
> We are neutral on local currency emerging market bonds.

All market data to 31 March unless mentioned otherwise

ROBECO

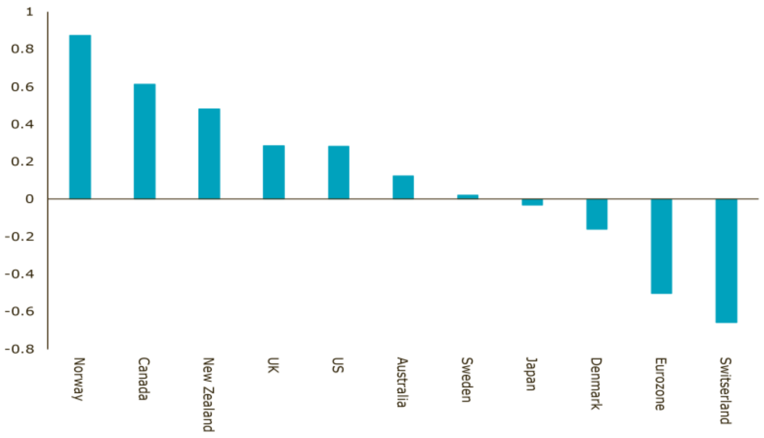
FX (I)

G-10 currencies: the Norwegian krona was the strongest



Source: Bloomberg, Robeco

2-year rates: currencies that offer carry mostly did well



Source: Bloomberg, Robeco

> It is difficult to find a general driver of G-10 currencies for March. Both the weakest and the strongest performers are so-called commodity currencies. The euro strengthened against some safe haven and commodity currencies and weakened against others. The progress of vaccinations doesn't seem to have been a major differentiating factor in March. The currencies of developed market countries that have led the way when it comes to vaccinations, such as the British pound and US dollar, have not been the strongest performers.

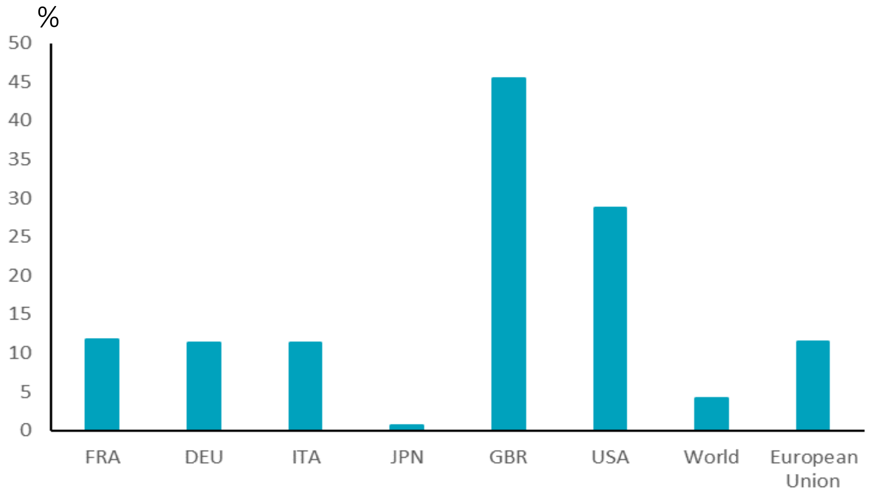
> What does seem to have been a driver is interest rate differentials. The weakest currencies offer less carry than the strongest. The odd one out on here is the New Zealand dollar, which has one of the highest yields, but was the weakest within the G-10 in March. This weakness was triggered by market participants toning down rate hike expectations. The market had expected the New Zealand central bank to hike rates to cool down the housing market, but this was not necessary following action by the government to do it instead.

> A general observation that can be made is that the narrative has changed, and the US dollar is no longer seen as a consensus short. The driver of this change in sentiment is an increasing growth differential in favor of the US. The Biden administration is having a firm impact on growth, not only through the substantial fiscal package that has been approved, but also from rapidly vaccinating a substantial part of the US population.

All market data to 31 March unless mentioned otherwise

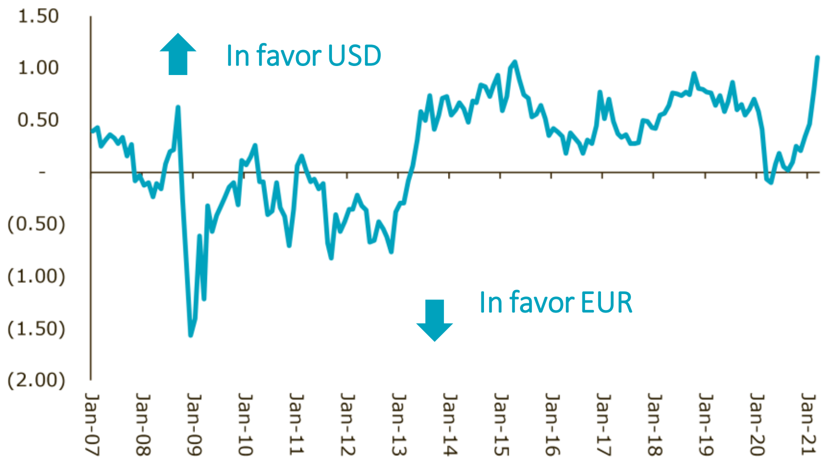
FX (II)

The percentage of the population that received at least one vaccine dose



Source: Robeco & Our World In Data

5Y real rates continue to move in favor of the USD



Source: Bloomberg, Robeco

- The Fed has made clear that that its far too early to even think about tightening conditions. So, loose monetary conditions will continue to complement substantial fiscal stimulus.
- While the rate of vaccination may not have been a major driver in March, uneven vaccine roll-out remains something to watch, as it can drive growth divergence. In this regard, the US dollar currently looks better positioned than sterling. While the UK has been at the forefront of vaccinating its population, it has run into a spat with the EU over deliveries. Also, it is highly likely that increasing infection rates in Europe will have a spillover effect on the UK. Still, the better progress the UK has made with regards to vaccinating its people leave sterling better positioned than the euro.
- With US monetary policy expected to remain unchanged, on the other side of the Atlantic, the ECB has been clear that it is willing to act. This difference in reaction was one of the reasons the euro came under pressure.
- We think the growth divergence will continue to be an important driver of currency performance. While most central banks will hesitate to adjust policy, this will not prevent the markets from starting to differentiate between different currencies based on policy expectations.
- We currently hold no currency positions. We missed the opportunity to go long on the US dollar at attractive levels. We think the market has already discounted the positive dollar news flow, so we are waiting for a catalyst to engage in the market.

Heat Map Asset Returns (in euros)

MULTI ASSET	1mo	3mo	YTD	1YR	3YR	5YR
Global real estate (UH, EUR)	7.4%	10.1%	10.1%	19.7%	6.4%	2.5%
MSCI World (UH, EUR)	6.7%	9.2%	9.2%	43.8%	14.6%	12.7%
MSCI World (H, EUR)	4.2%	6.0%	6.0%	49.0%	11.3%	11.5%
MSCI World local currency	4.2%	6.1%	6.1%	50.7%	13.3%	13.4%
Emerging Markets (UH, EUR)	1.7%	6.5%	6.5%	47.9%	8.1%	11.4%
GSCI Commodities (USD)	1.1%	18.2%	18.2%	40.2%	-3.5%	0.6%
Global inflation-linked bonds (H, EUR)	0.9%	-2.8%	-2.8%	5.2%	2.7%	2.7%
EMD hard currency (UH, EUR)	0.1%	-2.8%	-2.8%	5.5%	0.7%	2.4%
Cash (EUR)	0.0%	-0.1%	-0.1%	-0.5%	-0.4%	-0.4%
Global Gov Bonds (H, EUR)	-0.4%	-3.6%	-3.6%	-2.9%	1.9%	0.9%
Global high yield (H, EUR)	-0.4%	-0.5%	-0.5%	21.8%	2.9%	4.7%
Emerging Markets (LC)	-0.9%	4.0%	4.0%	53.0%	9.3%	12.9%
Gold (USD)	-0.9%	-9.8%	-9.8%	4.4%	7.4%	5.5%
EMD local currency (UH, EUR)	-1.1%	-4.8%	-4.8%	14.5%	1.6%	2.8%
Global investment grade bonds (H, EUR)	-1.1%	-3.5%	-3.5%	8.0%	3.4%	2.6%
Oil Index (USD)	-3.7%	22.3%	22.3%	46.3%	-21.9%	-8.2%

Equities: Country Indices	1mo	3mo	YTD	1YR	3YR	5YR
Germany (EUR)	8.9%	9.4%	9.4%	51.1%	7.5%	8.5%
Italy (EUR)	7.9%	11.3%	11.3%	47.7%	6.7%	10.1%
Eurozone (EUR)	7.9%	10.7%	10.7%	43.5%	7.9%	8.2%
Netherlands (EUR)	7.5%	12.0%	12.0%	44.8%	9.7%	9.7%
Global equities (EUR)	6.7%	9.2%	9.2%	43.8%	14.6%	12.7%
France (EUR)	6.5%	9.6%	9.6%	41.0%	8.6%	10.1%
Switzerland (CHF)	6.4%	4.6%	4.6%	22.6%	11.8%	10.9%
Brazil (BRL)	6.0%	-2.0%	-2.0%	59.7%	11.0%	18.4%
Russia (RUB)	5.8%	7.7%	7.7%	41.2%	15.9%	13.6%
USA (USD)	4.4%	6.2%	6.2%	56.4%	16.8%	16.3%
Spain (EUR)	4.4%	6.6%	6.6%	29.7%	-0.7%	2.8%
Global equities (LC)	4.2%	6.1%	6.1%	50.7%	13.3%	13.4%
UK (GBP)	4.2%	5.0%	5.0%	21.9%	2.3%	5.8%
Australia (AUD)	2.4%	4.2%	4.2%	37.2%	9.4%	9.9%
Emerging Markets (EUR)	1.7%	6.5%	6.5%	47.9%	8.1%	11.4%
Japan (JPY)	1.4%	7.0%	7.0%	56.7%	13.5%	13.9%
Korea (KRW)	1.3%	6.6%	6.6%	75.3%	9.8%	11.0%
India (INR)	0.9%	3.9%	3.9%	69.8%	15.9%	15.7%
Emerging Markets (LC)	-0.9%	4.0%	4.0%	53.0%	9.3%	12.9%
Hong Kong (HKD)	-1.8%	4.5%	4.5%	23.9%	1.5%	10.3%
Asia ex Japan (LC)	-1.8%	4.0%	4.0%	52.6%	9.5%	13.6%
China (HKD)		-0.4%	-0.4%	43.6%	8.2%	16.1%

Fixed Income	1mo	3mo	YTD	1YR	3YR	5YR
Inflation-linked Europe (EUR)	2.2%	1.2%	1.2%	10.2%	2.8%	2.7%
EMD hard currency (UH, EUR)	1.7%	0.3%	0.3%	6.5%	5.9%	4.4%
Japan Gov Bonds (H, JPY)	0.7%	-0.6%	-0.6%	-1.3%	0.3%	0.1%
High Yield Europe (EUR)	0.5%	1.6%	1.6%	21.9%	3.9%	5.0%
Italy Gov Bonds (EUR)	0.5%	-0.9%	-0.9%	7.7%	4.4%	2.9%
Spain Gov Bonds (EUR)	0.4%	-2.3%	-2.3%	3.5%	3.1%	3.1%
EMD local currency (UH, EUR)	0.3%	-2.8%	-2.8%	3.5%	2.0%	2.6%
Europe Senior Financials (EUR)	0.2%	-0.4%	-0.4%	9.1%	2.3%	2.4%
Investment Grade Europe (EUR)	0.2%	-0.7%	-0.7%	8.8%	2.4%	2.3%
Europe Non-financials IG (EUR)	0.2%	-0.9%	-0.9%	8.5%	2.5%	2.2%
High Yield US (UH, USD)	0.1%	0.8%	0.8%	23.7%	6.8%	8.1%
Euro Covered Bonds (EUR)	0.0%	-1.0%	-1.0%	1.0%	1.3%	1.0%
German Gov Bonds (EUR)	0.0%	-2.4%	-2.4%	-1.6%	1.9%	0.9%
France Gov Bonds (EUR)	-0.1%	-3.1%	-3.1%	0.4%	2.4%	1.6%
Inflation-linked US (UH, USD)	-0.2%	-1.5%	-1.5%	7.5%	5.7%	3.9%
Global Gov Bonds (H, EUR)	-0.4%	-3.6%	-3.6%	-2.9%	1.9%	0.9%
US Gov Bonds (H, EUR)	-1.4%	-4.9%	-4.9%	-6.1%	1.9%	0.2%
Investment Grade US (UH, USD)	-1.7%	-4.6%	-4.6%	8.7%	6.2%	4.9%

FX versus the EUR	current level	1M	3M	YTD	12M	1m	3m	1yr	1yr
EURO/CANADIAN DOLLAR	1.47	4.2%	5.2%	5.2%	5.0%	1.54	1.55	1.55	1.55
EURO/NORWEGIAN KRONE	10.03	4.1%	4.3%	4.3%	12.7%	10.46	10.48	11.48	11.48
EURO/INDIAN RUPEE	85.78	3.7%	4.4%	4.4%	-3.6%	89.10	89.76	82.78	82.78
EURO/SOUTH KOREAN WON	1325.71	3.0%	0.5%	0.5%	1.1%	1366.02	1332.83	1340.59	1340.59
EURO/US DOLLAR	1.17	2.9%	4.0%	4.0%	-6.3%	1.21	1.22	1.10	1.10
EURO/HONG KONG DOLLAR	9.12	2.6%	3.7%	3.7%	-6.7%	9.37	9.47	8.55	8.55
EURO/BRAZIL REAL	6.61	2.2%	-4.2%	-4.2%	-15.1%	6.76	6.34	5.74	5.74
EURO/CHINA RENMINBI	7.69	2.0%	3.9%	3.9%	1.3%	7.85	8.00	7.79	7.79
EURO/SINGAPORE DOLLAR	1.58	1.9%	2.3%	2.3%	-0.6%	1.61	1.61	1.57	1.57
EURO/BRITISH POUND	0.85	1.8%	4.8%	4.8%	4.2%	0.87	0.89	0.89	0.89
EURO/AUSTRALIAN DOLLAR	1.54	1.5%	2.7%	2.7%	14.2%	1.57	1.59	1.80	1.80
EURO/INDONESIAN RUPIAH	17062.98	1.4%	1.3%	1.3%	4.7%	17309.32	17284.80	17906.34	17906.34
EURO/RUSSIAN RUBLE	88.72	1.3%	2.1%	2.1%	-2.3%	89.92	90.64	86.70	86.70
EURO/SWEDISH KRONA	10.24	-0.5%	-1.9%	-1.9%	6.3%	10.19	10.05	10.93	10.93
EURO/SWISS FRANC	1.11	-0.9%	-2.4%	-2.4%	-4.4%	1.10	1.08	1.06	1.06
EURO/JAPANESE YEN	129.86	-0.9%	-2.9%	-2.9%	-9.5%	128.67	126.18	118.64	118.64

Source: Bloomberg

All market data to 31 March unless mentioned otherwise

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