Press Release

Robeco publishes its outlook for 2024 – Goldilocks: Exit stage right

- Interest rates expected to stay high (for an extended period), further steepening the yield curve
- Increased impact expected for sovereigns, corporates and households of high real interest
- Equity markets impacted by declining excess liquidity, geopolitical risks and high interest rates
- Climate remains top focus for shareholders; tax transparency and AI gain interest

Rotterdam 23 November 2023 — Robeco's one-year outlook anticipates a significant shift in the global economic landscape in 2024. The Goldilocks era is drawing to a close. Decreased consumer spending and reduced corporate investment likely reflect a deepening slowdown of the G7 business cycle. The impact of continuing high rates may trigger unemployment rising to 1-2% toward 2025. Corporate and housing balance sheets are still robust, preventing a classic recession so far. China, on the other hand, is grappling with the risk of outright deflation. A continuing downward trend in home sales and house prices in China could hinder a sustained domestic consumption recovery.

Peter van der Welle, Multi-Asset Strategist at Robeco: "Contrary to market expectations, the US economy has shown surprising resilience in 2023, characterized by low unemployment and disinflation. This phenomenon, labeled 'immaculate disinflation', extended to the Eurozone as well. Yet, the last mile for central banks will prove the toughest. Further disinflation efforts will come at a higher cost as the trade-off between unemployment and inflation steepens at lower levels of inflation. The effective immunization of sovereigns, corporates and households against a high real interest rate regime is set to fade. The current consensus narrative suggests a soft landing, where inflation is controlled without significantly increasing unemployment. But we believe this is overly optimistic."

Other factors of impact
The geopolitical landscape in 2024 is complex, with important elections in the G7 countries. The rise of far-right parties, ongoing conflicts, and a fractious relationship with China contribute to a fragmenting world order, increasing economic policy uncertainty. AI adoption is seen as a potential solution for improving productivity and reducing unit labor costs. However, so far the supply-side potential from AI adoption has not yet translated into improved productivity figures.

Financial markets
In 2024, financial markets will experience tightening financial conditions. Bond yields might not have peaked, initially affecting their use as a hedge. Yield curves could steepen more due to fiscal worries, though bond-equity correlations likely will turn negative when core inflation drops below 3%. Equities face challenges like decreasing liquidity, geopolitical issues, and high interest rates. Current double-digit earnings growth projections by consensus look rather upbeat, which may trigger multiple compression. While consensus earnings forecasts carry downside risks, Europe and Japan might fare better. In the currency market, the US dollar's high valuation may have reached a peak as the Fed approaches the cutting phase of the cycle. The dollar-yen pair is interesting due to the yen's potential to rise.

SIGNPOSTS 2024

	Check list	Now	Expectations in 12 months
While earnings have been resilient, equity prices have defied the gravity pull of higher rates in 2023, derating ahead as prices react to EPS downgrades.	Valuations	●○○	○●○
Corporate earnings have surprised with signs of margin recovery. Still, full impact of rates are yet to materialize. Consensus is far too optimistic about 2024 global earnings outlook.	Earnings	○●○	●○○
Fiscal impulse will likely fade into 2024, though it will stay net-expansionary in an important US/European Parliament election year.	Fiscal policy	○○●	○●○
Policy rates will be higher for longer, as getting core inflation to the 2-2.5% bracket proves difficult.	Monetary policy	●○○	●○○
Further (bear) steepening of the yield curve ahead, a recessionary signal. Repricing of recession risks and turbulent geopolitics will likely see long term bond yields peak in 2024. Short end of the curve holds better cards in 2024.	Yield curve slope ↑	●○○	○○●
Spreads are likely to widen on repricing recession risk in 2024/2025 and tight financial conditions. Potential good entry point for HY late 2024, but investment grade attractively valued versus HY even as it might initially continue to suffer from duration headwinds.	Spreads ↑	○●○	○○●
USD is expensive on deviation from relative Purchasing Power Parity, which should trade around 1.15-1.20 based on rate differentials versus EUR. However, it remains the only US-specific 'safe haven' as fiscal slippage hurts bonds via rebuild term premium. The yen is likely to appreciate against USD.	USD ↓	●○○	○●○
Mild recession will likely see oil prices trend lower but significant upside risk remains due to geopolitical volatility.	Oil/energy prices ↓	●○○	○●○
Financial conditions are set to tighten in 2024, with potential for things to break (leveraged loans, real estate).	Financial conditions	○●○	●○○
Housing markets will likely cool on the back of deteriorating housing affordability and delinquencies.	Housing market	○○●	○●○
US and Eurozone unemployment rates will be up by 1-2% by the end of 2024 as the sacrifice ratio from tight monetary policy rises.	Labor market	○○●	○●○

Sustainable investing outlook
Given the significant tail risk of oil prices remaining elevated for longer in 2024 despite weakening growth, the inflection point in the performance of sustainable funds may not yet happen in 2024. In the long-term, sustainable investing is likely to thrive, driven by regulations, green investment securities, and continued societal and investor interest. Europe, the US, and other regions are currently introducing over 40 laws covering various social and environmental issues. These regulations aim for desirable long-term outcomes but can lead to increased capital expenditure or operating costs for companies in the short term. With the growing importance of sustainability both in regulation and in society, shareholders have become more active in making use of their shareholder rights. At the same time, the discussion is becoming increasingly polarized.

Masja Zandbergen, Head of ESG Integration at Robeco: "Shareholder resolutions are usually a good proxy for what institutional investors have on their minds. Climate change has captured much attention in recent years and will remain a focus topic for 2024. We see that tax transparency and artificial intelligence – topics that have long been part of Robeco's engagement program – are also starting to gain interest from investors, next to equal opportunity, diversity and pricing policies."

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About Robeco

Robeco is a pure-play international asset manager founded in 1929 with headquarters in Rotterdam, the Netherlands, and 16 offices worldwide. A global leader in sustainable investing since 1995, its integration of sustainable as well as fundamental and quantitative research enables the company to offer institutional and private investors an extensive selection of active investment strategies, for a broad range of asset classes. As at 30 June 2023, Robeco had EUR 181 billion in assets under management, of which EUR 178 billion is committed to ESG integration. Robeco is a subsidiary of ORIX Corporation Europe N.V. More information is available at www.robeco.com.