Multi-asset market outlook

European equity – it is always darkest before the dawn!

January 2025

General overview

US Federal Reserve - The 'Grinch' of the holiday season

MULTI ASSET	1mo	3mo	YTD	1YR	3YR	5YR
Oil Index (USD)	6.4%	8.2%	14.4%	14.4%	12.0%	-2.0%
GSCI Commodities (USD)	5.3%	11.9%	16.5%	16.5%	13.1%	8.9%
Emerging Markets (UH, EUR)	1.9%	-0.9%	14.7%	14.7%	1.2%	3.4%
Emerging Markets (LC)	1.2%	-4.4%	13.1%	13.1%	1.6%	4.5%
EMD hard currency (UH, EUR)	0.7%	5.5%	12.9%	12.9%	2.0%	1.8%
Cash (EUR)	0.3%	0.8%	3.9%	3.9%	2.4%	1.3%
EMD local currency (UH, EUR)	0.0%	0.6%	4.3%	4.3%	2.4%	0.4%
Global high yield (H, EUR)	-0.3%	0.6%	8.9%	8.9%	1.6%	2.0%
MSCI World (UH, EUR)	-0.7%	7.6%	26.6%	26.6%	9.7%	13.0%
Gold (USD)	-1.1%	-0.5%	26.6%	26.6%	12.3%	10.4%
Global Gov Bonds (H, EUR)	-1.3%	-2.1%	-0.2%	-0.2%	-3.8%	-2.0%
Global investment grade bonds (H, EUR)	-1.4%	-2.0%	1.9%	1.9%	-3.1%	-0.9%
MSCI World local currency	-1.9%	1.9%	21.0%	21.0%	7.8%	12.0%
MSCI World (H, EUR)	-2.0%	1.7%	19.9%	19.9%	6.0%	10.4%
Global inflation-linked bonds (H, EUR)	-2.2%	-3.2%	-2.3%	-2.3%	-6.9%	-1.9%
Global real estate (UH, EUR)	-5.4%	-0.5%	13.5%	13.5%	-0.7%	3.2%

Source: Robeco, Bloomberg. Note Returns in Euros

Sharp sell-off in December

While the Federal Reserve didn't quite steal Christmas like Dr Seuss's character the 'Grinch', its December comments led to a sharp sell-off in bond and equity markets. The US central bank announced that it expects inflation in 2025 to be higher than previously expected, and now only two rate cuts are likely this year. This propelled the US dollar higher, with parity with the euro a distinct possibility in the near future.

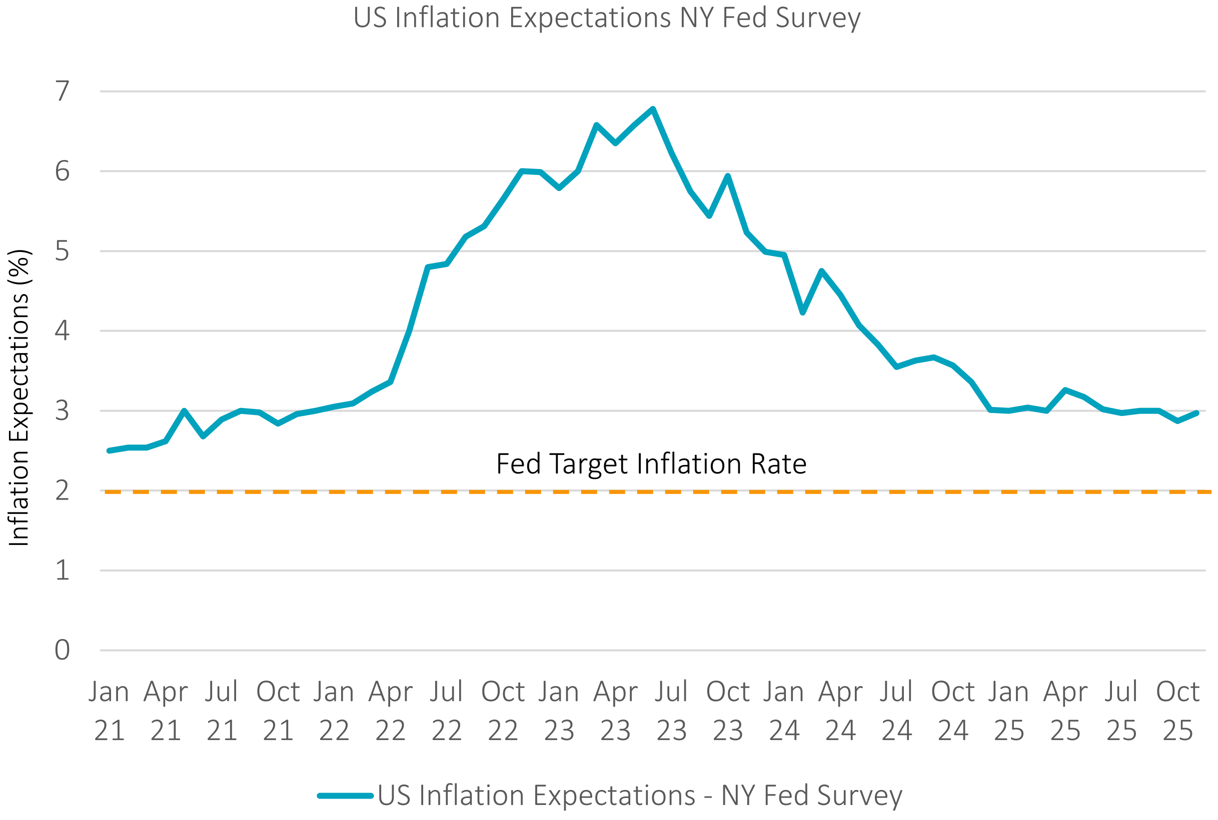
The Grinch definitely visited Latin America, as expectations of lower rates collided with the stark reality of a stronger dollar. The Argentinian peso and Brazilian real fell over 20% on the spot market in 2024.

Chinese growth engine

Chinese equites outperformed, as President Xi pledged that China will remain the world's growth engine and loosened monetary policy. The US election frenzy faded, as investors took profits from parts of the US market likely to benefit most from Trump 2.0.

General overview

Potential tariffs may make US inflation more sticky



Source: Robeco, Refintiv. Note Returns in Euros

Negative returns in fixed income

It was a tough month for fixed income, as government bonds, credits and emerging market debt all delivered negative returns. High-yield was the most resilient part of fixed income, supported by strong US economic growth and less rate sensitivity. Fear that potential tariffs may make elevated US inflation more sticky.

Oil prices moved up sharply on hopes of a Chinese recovery, supported by the government's growth 'promises'. Cocoa and coffee ended 2024 as the biggest gainers among commodities, driven by adverse growing conditions in West Africa.

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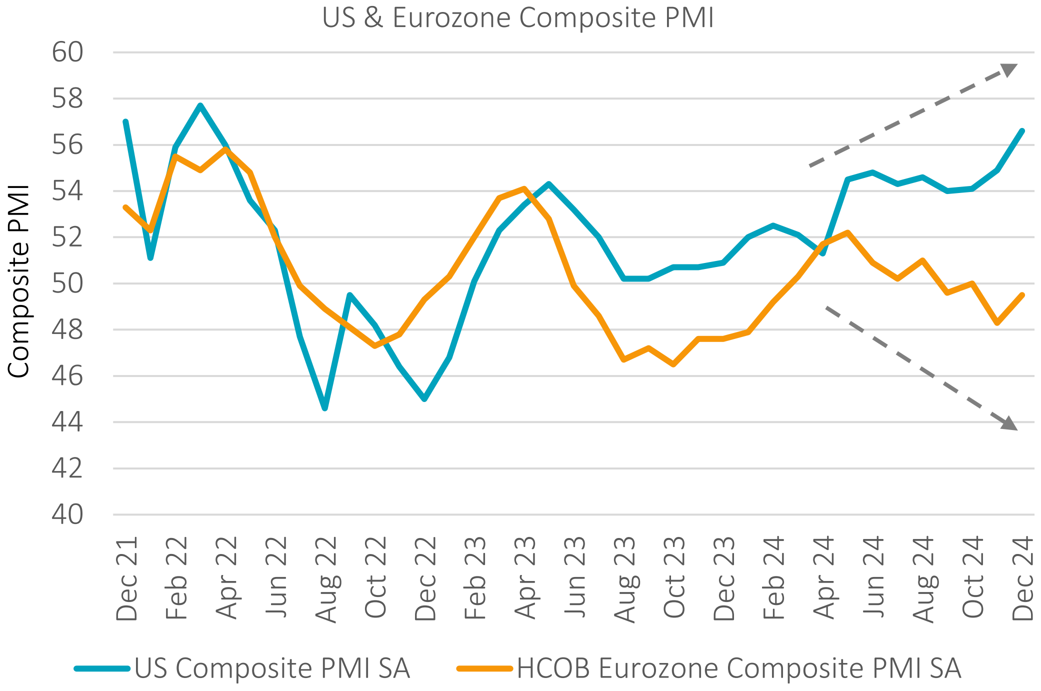
Theme of the month

European equity – it is always darkest before the dawn!



Source: Refinitiv

The bigger risks are now in the rear-view window

The list of woes for European economies is long and new items are seemingly added every day. This is reflected in the quite sobering current economic growth picture for Europe, particularly if we compare it to the US.

This diverging story is illustrated in quite differing composite PMIs (see chart on left). The story has been worse in the industrials sector, with the European automotive industry one of the most high-profile casualties.

There are several potential catalysts that could provide upside to European equities: reducing political turbulence, a ceasefire in Ukraine, a recovery in China, supportive monetary policy from the ECB, and rising consumer spending.

All market data to 31 December 2024 unless mentioned otherwise

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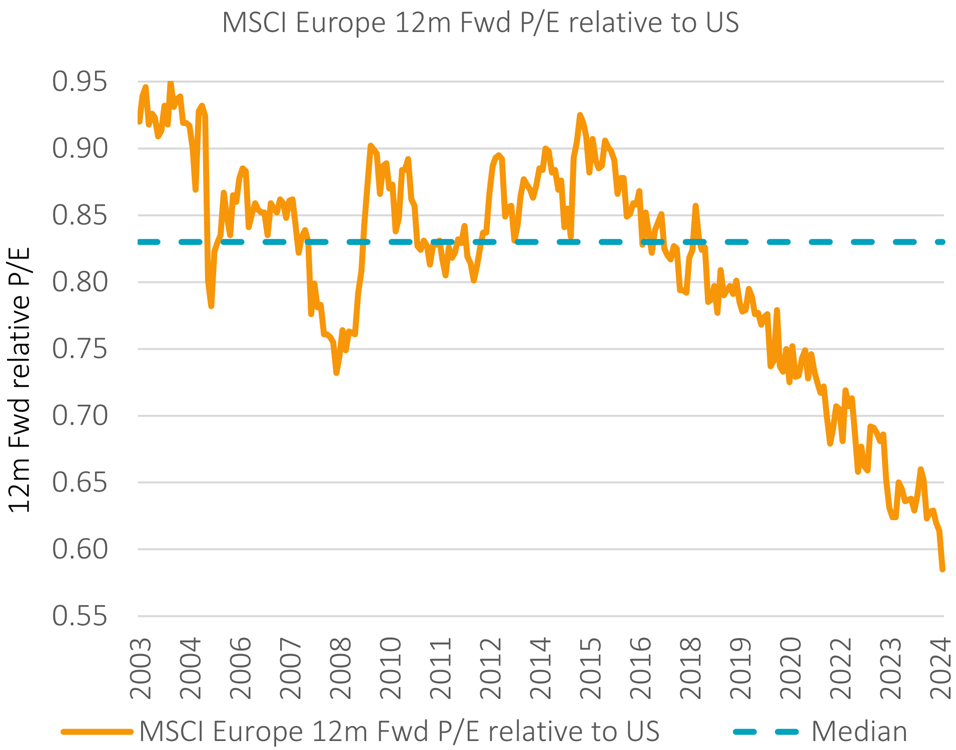

Source: Refinitiv

Valuations in Europe are at severely depressed levels:

Muted economic growth in Europe coupled with downward earnings revisions have not stood up well in the momentum-driven market of the past two years. This has translated into some downtrodden European equity valuations.

While some of the rising discount may be rooted in sector mix and diverging structural earnings trends, let's not also forget that Europe has some great global champions, with highly attractive industries.

For instance, companies like ASML, L'Oréal, LVMH, Roche, NovoNordisk and Nestle are showing no sign of exuberant valuation – quite in contrast to US quality stocks. *

Also, European companies' earnings power is not at all dependent on Europe in the first place, given their highly global revenue bases.

*The companies shown are for illustrative purposes. The companies are not necessarily held by a strategy. This is not a buy, sell or hold recommendation, or investment advice. Future inclusion of these securities in portfolios is not guaranteed, nor can their future performance be predicted.

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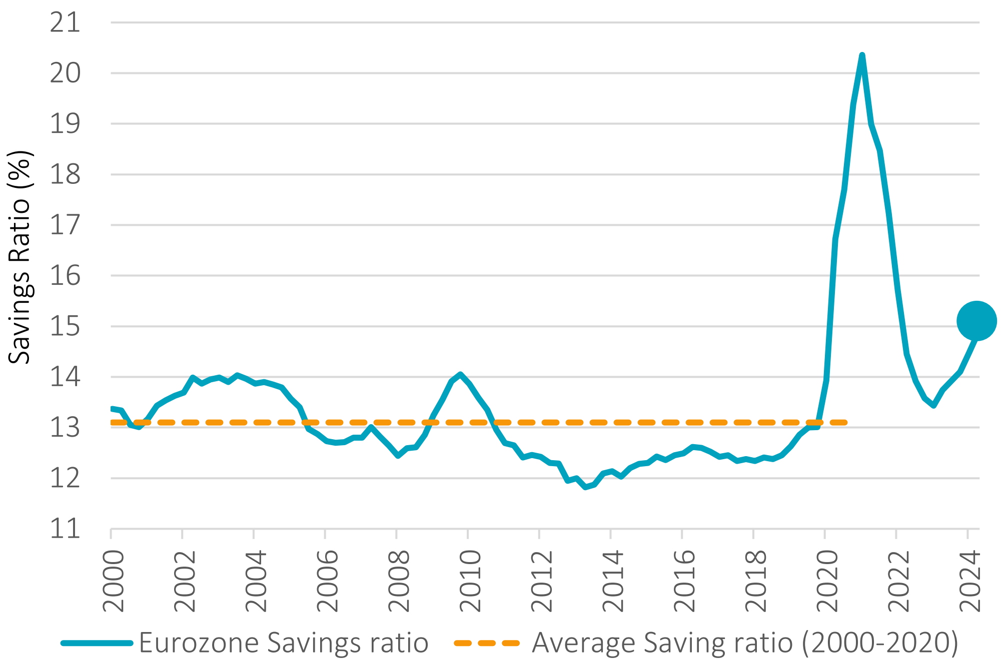
EU consumers can spend more in 2025 – with less need to save



Source: Refinitiv

European consumers have room to go out and spend

Post-pandemic US consumer spending has recovered to previous levels, which has been a key driver of US growth, and why the US economy has grown faster than Europe.

Employment remains strong and inflation has fallen, but cautious European consumers have been more focused on rebuilding their financial net worth, rather than spending. The household savings rate is well above the long-term average as a result of uncertainties, particularly the war in Ukraine.

Going forward, less negative sentiment bodes well for a recovery in consumption. Falling savings rates offered at banks may also trigger a less frugal mindset for European consumers.

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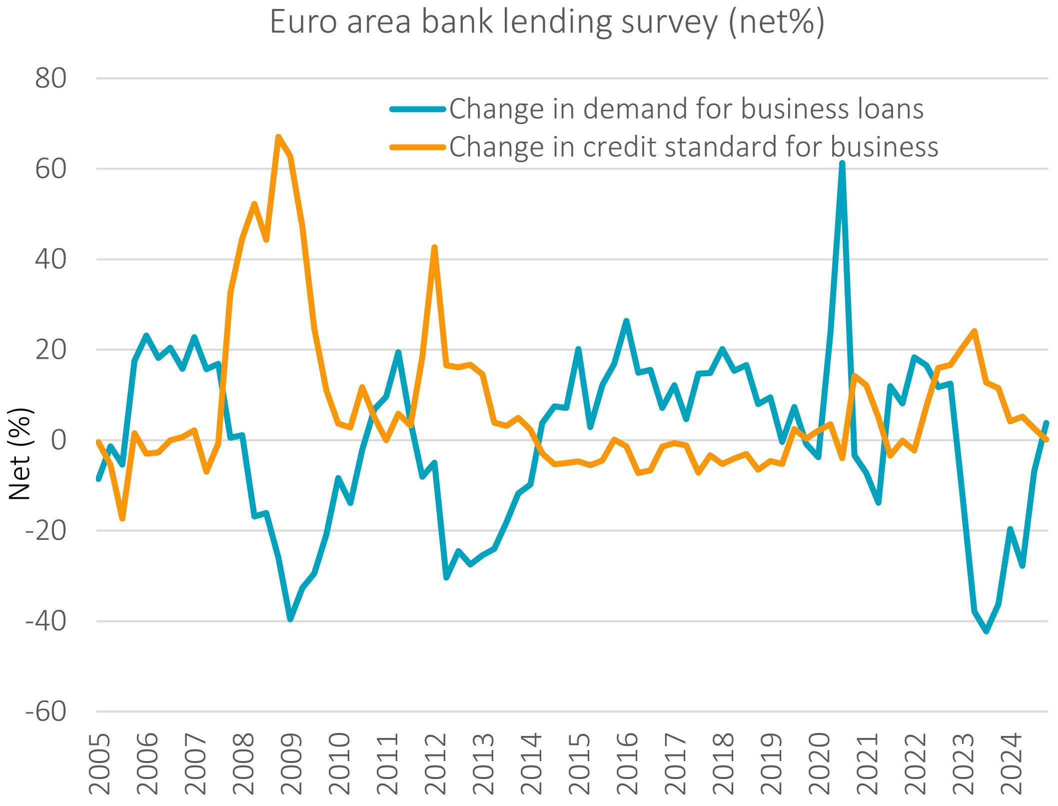

Stronger loan demand and financial conditions are easing

Credit standards for businesses have been easing since mid-2023, which is already fuelling a rebound in demand from low levels. In combination with lower interest rates and increasingly accommodating monetary policy, this could spur a pick-up in investments, particularly in construction, which is rate-sensitive.

There are also signs that demand for household credit in the Eurozone is on the up, as in November it increased at the fastest pace in 18 months. In particular, housing loan demand rebounded strongly on the back of expected interest rate cuts and improving housing market prospects.

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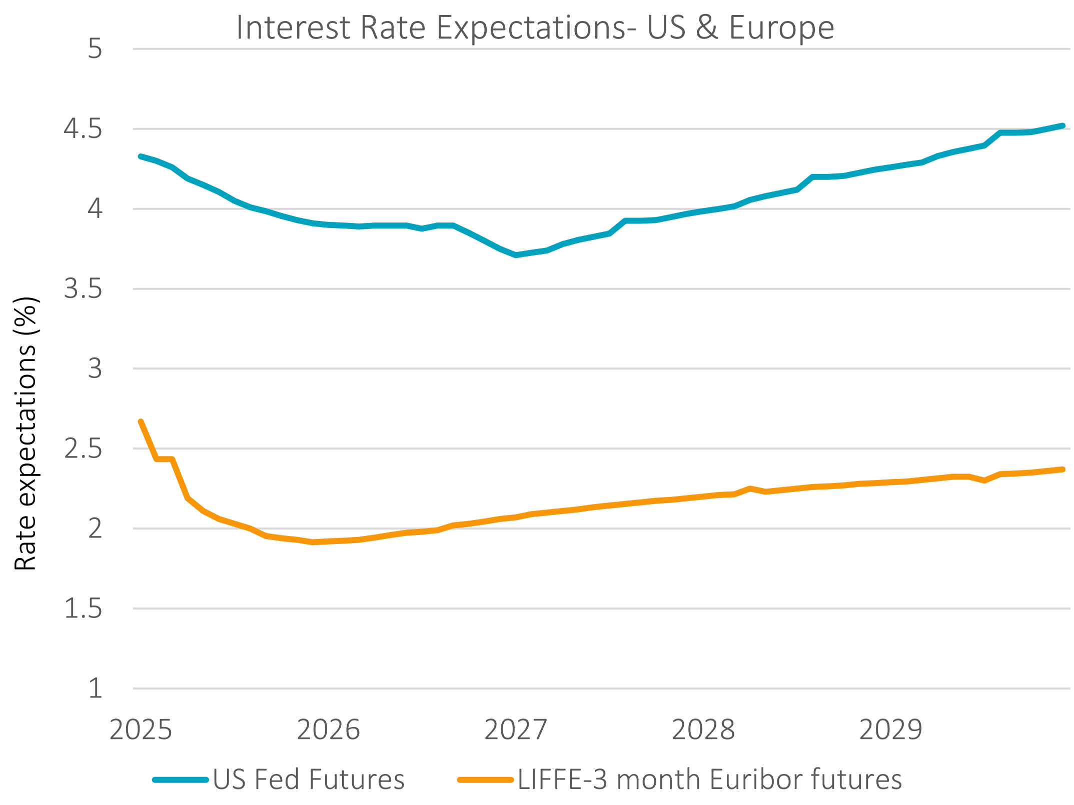

US and Europe diverge on monetary policy

The ECB cut rates four times in 2024 and has kept the door open for further easing this year. As inflation worries have evaporated, the ECB's dovish policy has attempted to counter sluggish growth and concerns over potential US tariffs.

This is in stark contrast to the US Federal Reserve, whose Chairman Jay Powell recently confirmed a lower and shallower rate cut story for 2025. This is partly down to concerns as to the potential inflationary impact of Trump's proposed higher fiscal policy.

Lower relative interest rates will likely be positive for most European companies, particularly mid-caps that tend to have more floating rate debt. We will need to wait and see if lower debt serving costs translate into a materials uptick in European company earnings in 2025, but we are moving to the modestly optimistic camp.

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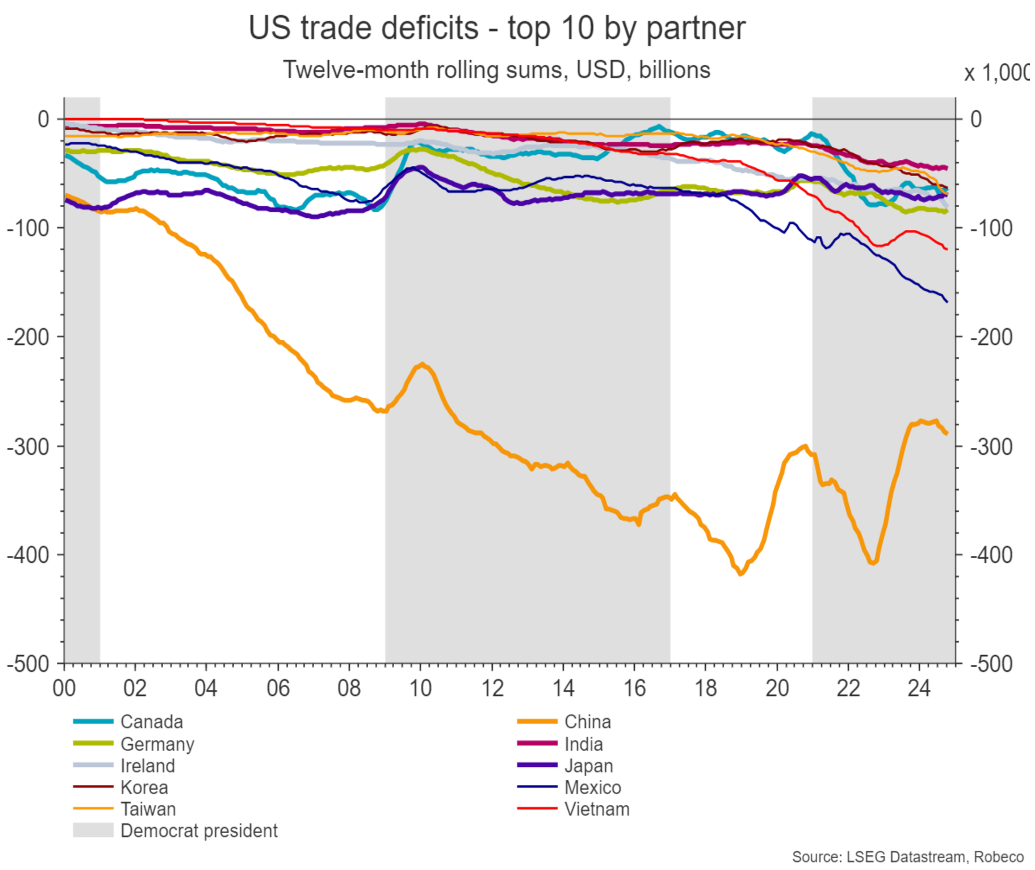
Economy

Big trade surplus countries particularly at risk from Trump tariffs



Geopolitical turbulence

The global economy saw economic activity improving and inflation falling on the back of the start of a central bank easing cycle in 2024 and considerable geopolitical turbulence as half of the global population went into the voting booth.

US exceptionalism became more entrenched, with only services-oriented peripheral Europe (Spain and Greece) notably outperforming the US in terms of year-on-year real GDP growth. The Eurozone and Japan struggled with growth staying below 1%. The global manufacturing recession continued, particularly posing headwinds for Germany and China.

Chinese debt deflation

China's economy faced a debt deflation cycle triggered by excess industrial capacity and an excess housing supply still amounting to 30 million houses in 2024, according to more conservative estimates. Removing this excess housing supply to stabilize domestic consumer sentiment is pivotal to see sustained reflation of the Chinese economy as the global trade environment is likely to deteriorate as the first batch of Trump tariffs will be released in 2025.

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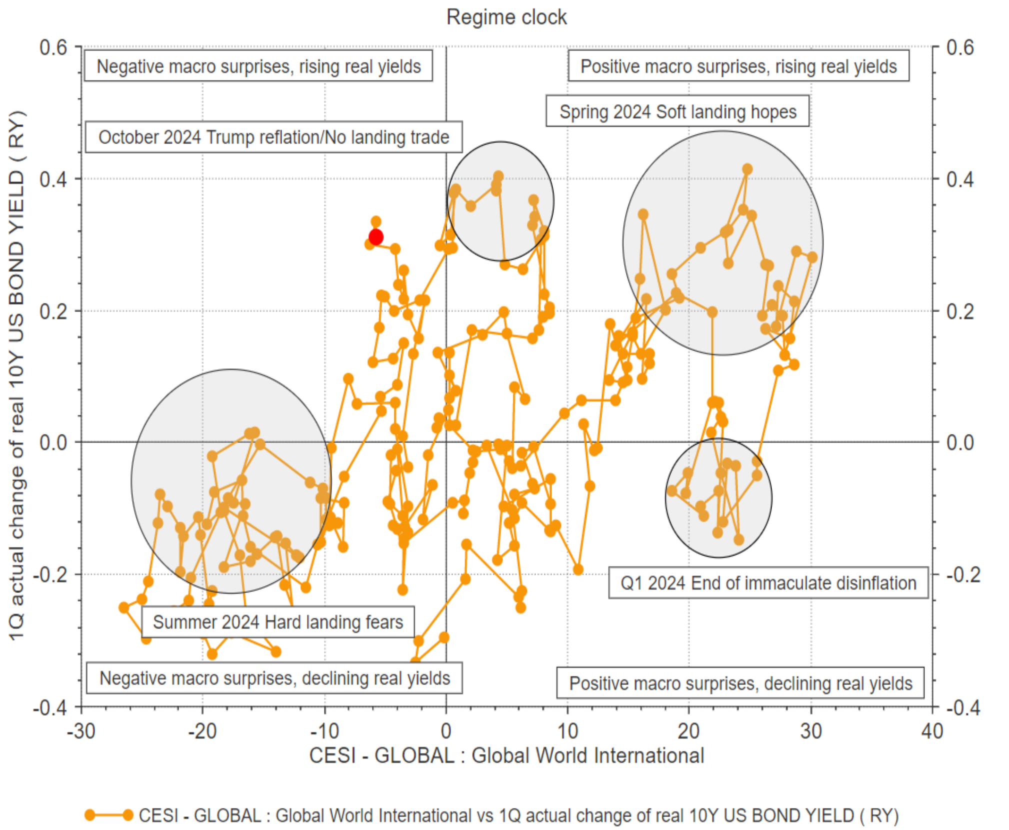
Economy

Macro regime uncertainty set to continue in 2025



Source: LSEG Datastream, Robeco

Contrasts among policymakers

December saw signs of a more determined policy stance on behalf of Chinese policymakers, signaling fiscal policy should "be more proactive" while monetary policy should be "moderately loose".

In contrast, US monetary policymakers sounded more hawkish in December, as incoming inflation numbers disappointed with the CPI rising to 2.7% in November. Our outlook 2025 does not see much room for non-inflationary growth in the US, even despite likely productivity gains. Trump's migration policy and tariffs are likely offsetting forces to benign disinflationary potential output growth.

Energy supply shocks

Considerable geopolitical uncertainties – among them heightened instability in the Middle East after the fall of the Assad regime in Syria – increases the risk of negative supply shocks in energy markets, potentially bringing an inflation inflection forward in time.

All market data to 31 December 2024 unless mentioned otherwise

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