

MONTHLY MARKET MONITOR

US Federal Reserve – The ‘Grinch’ of the holiday season

January 2025

US central bank signals a lower pace of rate cuts for 2025

While the Federal Reserve didn't quite steal Christmas like Dr Seuss's fictional 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.

Highlights



Equities
Equities sell off, rate-sensitive US mid-caps and listed real estate are the big losers.

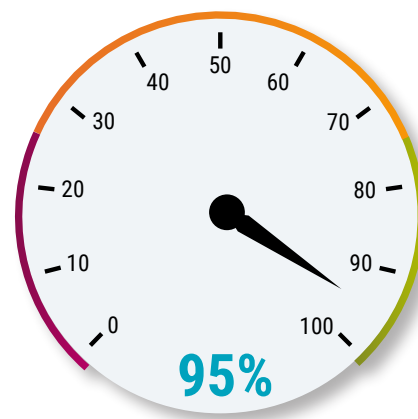


Bonds
US government and corporate bonds down sharply – European bonds hold up better.



Alternatives
Coffee prices near 50-year high due to extreme weather and rising global demand.

Robeco Bull & Bear indicator



0%
vs. last month

Market's risk mode

Buy or sell? Our highest conviction views

+

Slight equity overweight

We expect continued volatility around what President Trump will do, but are not distracted by short-term market noise. Momentum remains positive, backed by a broadly positive global economic picture.

+

Overweight to Treasuries

We retain an overweight to US government bonds as yields are at an attractive level and it improves downside protection of portfolios. We are underweight credit, which remains relatively expensive.

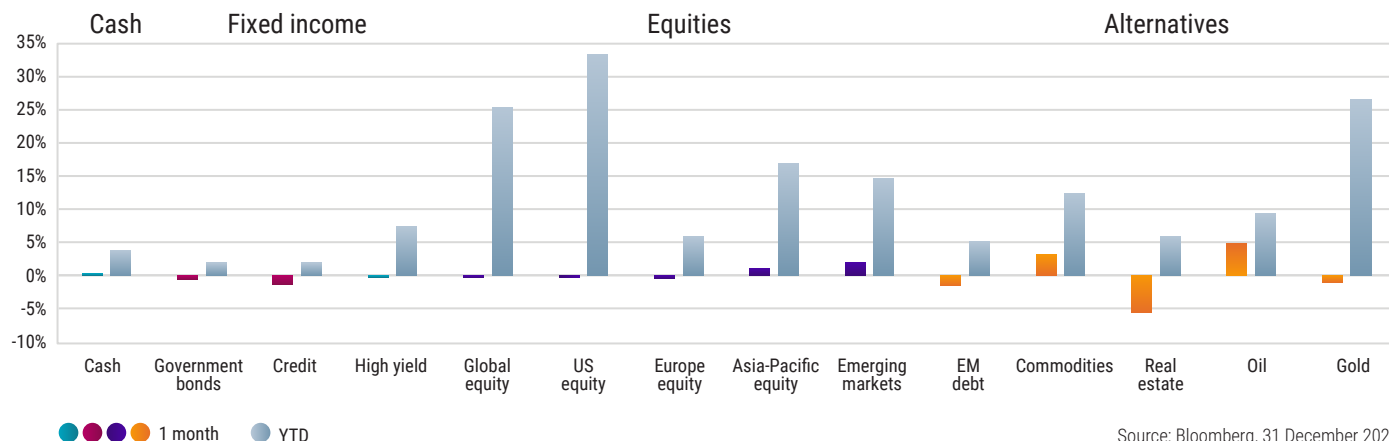
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Gold cut after US election

We sold our gold position after the US election, as valuations appear extended. Right now we think there are better options elsewhere for downside protection.

Asset classes compared

Asset class performance: December and YtD



Source: Bloomberg, 31 December 2024. Asset class returns are in euros.



Chinese equities jump, US election euphoria fades

- Chinese equities outperformed, as President Xi pledged 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.

Equity exposure remains overweight



Bonds hurt by falling US rate cut expectations

- 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.

Underweight to credits

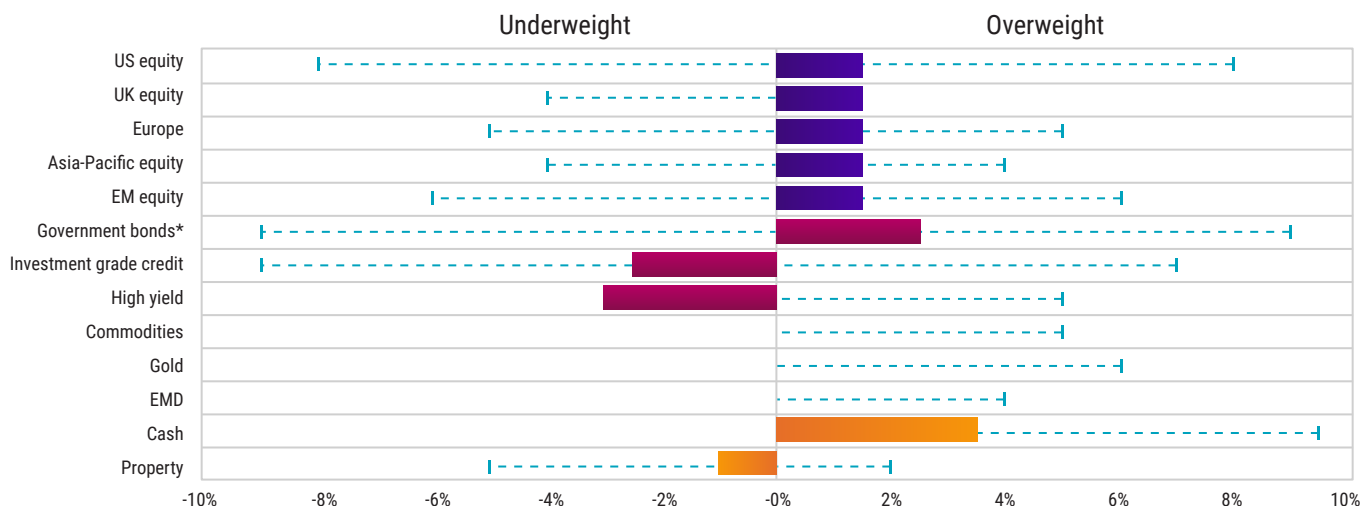


Jump in commodity prices

- Oil prices moved up sharply on hopes of a China 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.

We remain neutral

Current positioning



--- = Max asset class range over past 5 years

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

Theme of the month

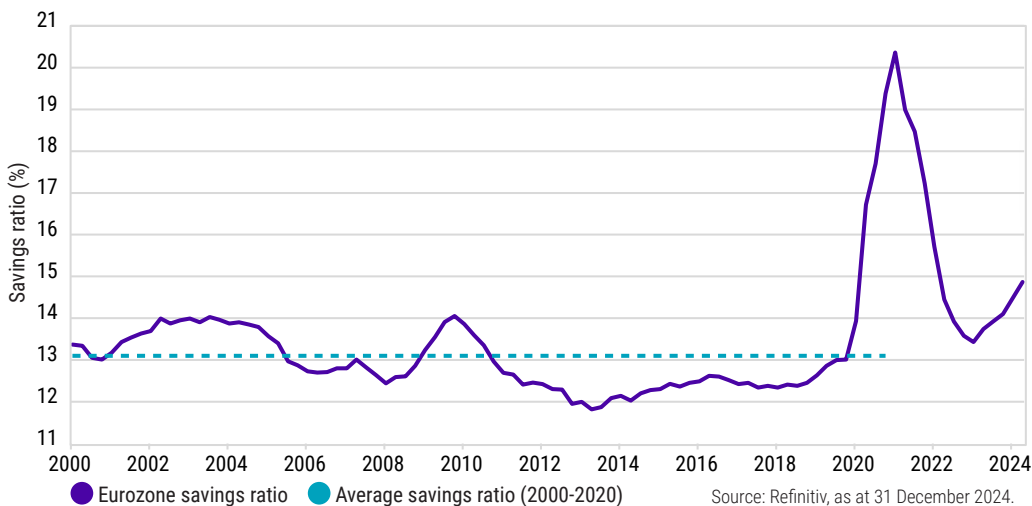
European equity – it is always darkest before the dawn

“The list of woes for European economies is long and new items are added every day. The momentum-driven market of the past two years has aggressively beaten down European equity valuations. But many of the bigger risks are now in the rear-view window.”

Mathias Büeler
Robeco Sustainable European Stars Equities strategy



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



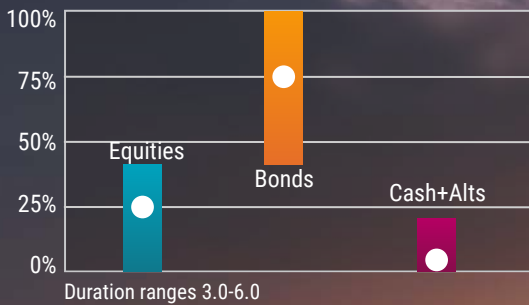
There are several potential catalysts that could provide upside to European equities: reducing political turbulence, a ceasefire in Ukraine, a recovery in China, supportive monetary policy from the ECB, and rising consumer spending.

- Employment remains strong and European consumers have been rebuilding their financial net worth. The household savings rate is well above the long-term average as a result of uncertainties. Going forward, less negative sentiment bodes well for a recovery in consumption.
- Let's not also forget that Europe has some great global champions within highly attractive industries like ASML, L'Oréal, LVMH, Roche, Novo Nordisk and Nestlé that are showing no sign of exuberant valuation – quite in contrast to US quality stocks.



Robeco Multi-Asset strategies

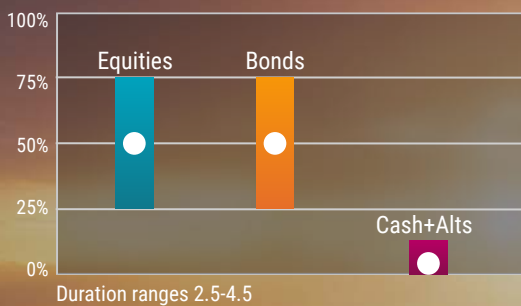
Sustainable Income Allocation



Income \geq 5%
Volatility 7%

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

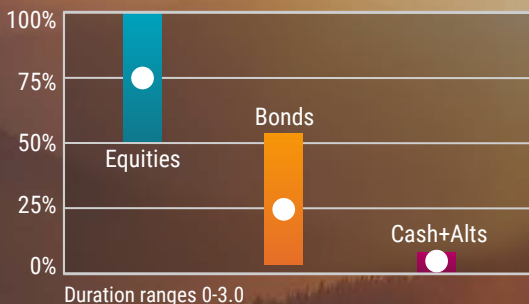
Sustainable Diversified Allocation



Return \geq 6%
Volatility 10%

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

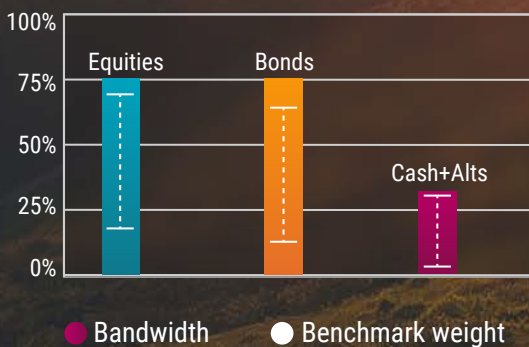
Sustainable Dynamic Allocation



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

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