ROBECO
The Investment Engineers

# Global markets outlook

December 2021

For professional investors

Sustainable Investing Expertise by ROBECOSAM

# Heat Map Asset Returns (in euros)

| MULTI ASSET | 1mo | 3mo | YTD | 1YR | 3YR | 5YR |
|---|---|---|---|---|---|---|
| Global inflation-linked bonds (H, EUR) | 2.8% | 3.0% | 6.4% | 7.2% | 6.9% | 3.9% |
| Global real estate (UH, EUR) | 1.5% | 4.0% | 32.0% | 31.5% | 8.0% | 6.0% |
| Global Gov Bonds (H, EUR) | 1.1% | -0.3% | -2.1% | -2.1% | 2.9% | 1.5% |
| MSCI World (UH, EUR) | 0.6% | 3.9% | 27.0% | 29.4% | 17.1% | 13.3% |
| Global investment grade bonds (H, EUR) | 0.1% | -1.0% | -1.5% | -1.1% | 5.0% | 2.9% |
| EMD hard currency (UH, EUR) | 0.0% | -2.8% | -2.3% | -1.2% | 2.2% | 1.7% |
| Cash (EUR) | 0.0% | -0.1% | -0.4% | -0.5% | -0.4% | -0.4% |
| Gold (USD) | -0.5% | -2.4% | -7.0% | -1.0% | 11.6% | 7.4% |
| Emerging Markets (UH, EUR) | -1.4% | -2.4% | 4.0% | 9.1% | 9.5% | 8.2% |
| MSCI World local currency | -1.5% | 0.1% | 19.4% | 23.6% | 16.7% | 14.2% |
| Global high yield (H, EUR) | -1.5% | -2.9% | 0.1% | 1.9% | 4.2% | 3.1% |
| MSCI World (H, EUR) | -1.6% | -0.1% | 18.7% | 22.7% | 15.0% | 12.4% |
| EMD local currency (UH, EUR) | -2.0% | -4.1% | -4.0% | -2.3% | 3.9% | 2.5% |
| Emerging Markets (LC) | -3.2% | -5.1% | -1.7% | 4.3% | 10.5% | 10.2% |
| GSCI Commodities (USD) | -8.3% | 4.9% | 41.8% | 46.9% | 2.8% | 1.0% |
| Oil Index (USD) | -19.6% | -0.8% | 42.4% | 51.7% | -12.3% | -7.7% |

| Fixed Income | 1mo | 3mo | YTD | 1YR | 3YR | 5YR |
|---|---|---|---|---|---|---|
| France Gov Bonds (EUR) | 2.0% | 0.2% | -2.4% | -2.4% | 2.4% | 1.8% |
| German Gov Bonds (EUR) | 1.9% | 0.5% | -1.0% | -1.0% | 1.8% | 1.2% |
| Inflation-linked Europe (EUR) | 1.5% | 1.9% | 6.1% | 6.8% | 5.4% | 3.5% |
| Italy Gov Bonds (EUR) | 1.5% | -0.9% | -1.6% | -1.1% | 6.6% | 3.4% |
| Spain Gov Bonds (EUR) | 1.5% | 0.0% | -1.7% | -1.5% | 3.9% | 3.2% |
| EMD hard currency (UH, EUR) | 1.4% | 1.0% | 4.8% | 4.2% | 5.7% | 3.2% |
| EMD local currency (UH, EUR) | 1.2% | -1.4% | -0.9% | -0.1% | 3.1% | 2.3% |
| Global Gov Bonds (H, EUR) | 1.1% | -0.3% | -2.1% | -2.1% | 2.9% | 1.5% |
| Inflation-linked US (UH, USD) | 0.9% | 1.3% | 5.6% | 6.8% | 8.5% | 5.3% |
| Euro Covered Bonds (EUR) | 0.9% | -0.7% | -1.4% | -1.4% | 1.2% | 0.9% |
| US Gov Bonds (H, EUR) | 0.8% | -0.5% | -2.7% | -3.1% | 3.4% | 1.3% |
| Japan Gov Bonds (H, JPY) | 0.2% | -0.3% | -0.3% | -0.4% | 0.5% | 0.2% |
| Europe Non-financials IG (EUR) | 0.2% | -1.2% | -1.1% | -1.0% | 2.8% | 1.9% |
| Investment Grade Europe (EUR) | 0.2% | -1.2% | -0.9% | -0.7% | 2.7% | 2.0% |
| Europe Senior Financials (EUR) | 0.2% | -1.1% | -0.6% | -0.3% | 2.7% | 2.0% |
| Investment Grade US (UH, USD) | 0.1% | -0.7% | -1.0% | -0.5% | 8.1% | 5.4% |
| High Yield Europe (EUR) | -0.5% | -1.2% | 2.6% | 3.4% | 5.2% | 4.2% |
| High Yield US (UH, USD) | -1.0% | -1.2% | 3.3% | 5.3% | 7.4% | 6.3% |

| Equities: Country Indices | 1mo | 3mo | YTD | 1YR | 3YR | 5YR |
|---|---|---|---|---|---|---|
| Global equities (EUR) | 0.6% | 3.9% | 27.0% | 29.4% | 17.1% | 13.3% |
| Switzerland (CHF) | 0.4% | -1.9% | 16.9% | 19.4% | 14.0% | 12.7% |
| Australia (AUD) | -0.6% | -2.5% | 13.9% | 15.2% | 12.3% | 9.8% |
| USA (USD) | -0.7% | 1.3% | 23.2% | 27.9% | 20.4% | 17.9% |
| Emerging Markets (EUR) | -1.4% | -2.4% | 4.0% | 9.1% | 9.5% | 8.2% |
| Global equities (LC) | -1.5% | 0.1% | 19.4% | 23.6% | 16.7% | 14.2% |
| France (EUR) | -1.5% | 0.9% | 23.9% | 24.8% | 13.3% | 11.1% |
| Brazil (BRL) | -1.5% | -14.2% | -14.4% | -6.4% | 4.4% | 10.5% |
| UK (GBP) | -2.2% | -0.2% | 13.1% | 16.8% | 4.2% | 4.8% |
| Emerging Markets (LC) | -3.2% | -5.1% | -1.7% | 4.3% | 10.5% | 10.2% |
| Italy (EUR) | -3.4% | 0.7% | 20.2% | 21.1% | 14.1% | 12.5% |
| Asia ex Japan (LC) | -3.5% | -5.7% | -4.1% | 1.7% | 10.4% | 10.2% |
| Japan (JPY) | -3.7% | -0.3% | 2.9% | 7.0% | 9.7% | 10.8% |
| Germany (EUR) | -3.8% | -4.6% | 10.1% | 13.6% | 10.3% | 7.3% |
| India (INR) | -3.8% | -0.7% | 20.7% | 30.2% | 17.7% | 17.8% |
| Korea (KRW) | -3.9% | -11.1% | -4.1% | 7.9% | 11.2% | 8.0% |
| Netherlands (EUR) | -4.1% | -1.3% | 24.5% | 28.3% | 14.4% | 11.2% |
| Eurozone (EUR) | -4.3% | -2.8% | 16.6% | 18.6% | 11.1% | 8.4% |
| China (HKD) | -6.0% | -7.9% | -19.2% | -16.9% | 6.7% | 9.1% |
| Russia (RUB) | -6.3% | -0.7% | 18.3% | 25.2% | 17.6% | 13.1% |
| Hong Kong (HKD) | -7.4% | -8.9% | -11.6% | -8.6% | -0.9% | 4.0% |
| Spain (EUR) | -8.2% | -5.8% | 4.9% | 5.3% | -0.2% | 2.0% |

| FX versus the EUR | current level | 1M | 3M | YTD | 12M | 1m | 3m | Ytd | 1yr |
|---|---|---|---|---|---|---|---|---|---|
| EURO/JAPANESE YEN | 128.32 | 2.6% | 1.2% | -1.7% | -3.1% | 131.77 | 129.92 | 126.18 | 124.42 |
| EURO/CHINA RENMINBI | 7.24 | 2.2% | 5.1% | 9.5% | 8.3% | 7.40 | 7.63 | 8.00 | 7.89 |
| EURO/INDIAN RUPEE | 85.41 | 2.1% | 1.1% | 4.8% | 3.2% | 87.28 | 86.33 | 89.76 | 88.27 |
| EURO/BRAZIL REAL | 6.38 | 2.1% | -4.9% | -0.5% | 0.2% | 6.52 | 6.08 | 6.34 | 6.39 |
| EURO/US DOLLAR | 1.13 | 1.9% | 4.0% | 7.2% | 4.9% | 1.16 | 1.18 | 1.22 | 1.19 |
| EURO/HONG KONG DOLLAR | 8.84 | 1.7% | 3.7% | 6.6% | 4.4% | 8.99 | 9.18 | 9.47 | 9.25 |
| EURO/INDONESIAN RUPIAH | 16265.28 | 1.6% | 3.6% | 5.9% | 3.8% | 16530.25 | 16864.06 | 17284.80 | 16916.12 |
| EURO/SWISS FRANC | 1.04 | 1.6% | 3.6% | 3.7% | 3.9% | 1.06 | 1.08 | 1.08 | 1.08 |
| EURO/SOUTH KOREAN WON | 1344.60 | 1.4% | 2.0% | -0.9% | -1.6% | 1363.77 | 1371.66 | 1332.83 | 1323.47 |
| EURO/SINGAPORE DOLLAR | 1.55 | 0.7% | 2.5% | 4.1% | 3.2% | 1.56 | 1.59 | 1.61 | 1.60 |
| EURO/BRITISH POUND | 0.85 | -0.9% | 0.7% | 4.6% | 4.8% | 0.84 | 0.86 | 0.89 | 0.90 |
| EURO/CANADIAN DOLLAR | 1.45 | -1.2% | 2.7% | 6.8% | 6.6% | 1.43 | 1.49 | 1.55 | 1.55 |
| EURO/RUSSIAN RUBLE | 84.10 | -2.6% | 3.0% | 7.2% | 7.7% | 81.94 | 86.72 | 90.64 | 91.15 |
| EURO/SWEDISH KRONA | 10.23 | -3.0% | -0.5% | -1.8% | 0.0% | 9.93 | 10.18 | 10.05 | 10.23 |
| EURO/AUSTRALIAN DOLLAR | 1.59 | -3.5% | 1.5% | -0.2% | 2.0% | 1.54 | 1.61 | 1.59 | 1.62 |
| EURO/NORWEGIAN KRONE | 10.25 | -5.0% | 0.3% | 2.2% | 3.3% | 9.76 | 10.27 | 10.48 | 10.60 |

Source: Bloomberg

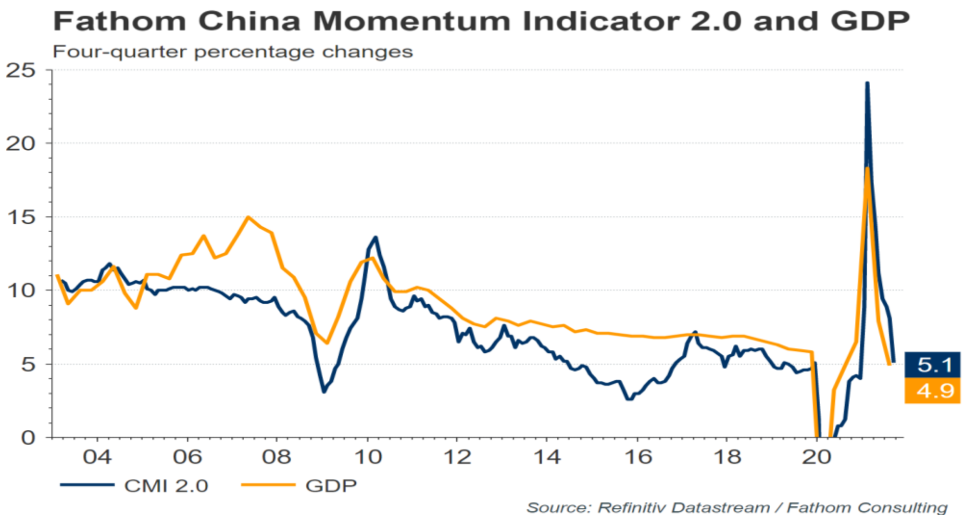


All market data to 30 November unless mentioned otherwise

ROBECO

# Economy (I)

China is seeing weakening momentum




Source: Refinitiv Datastream

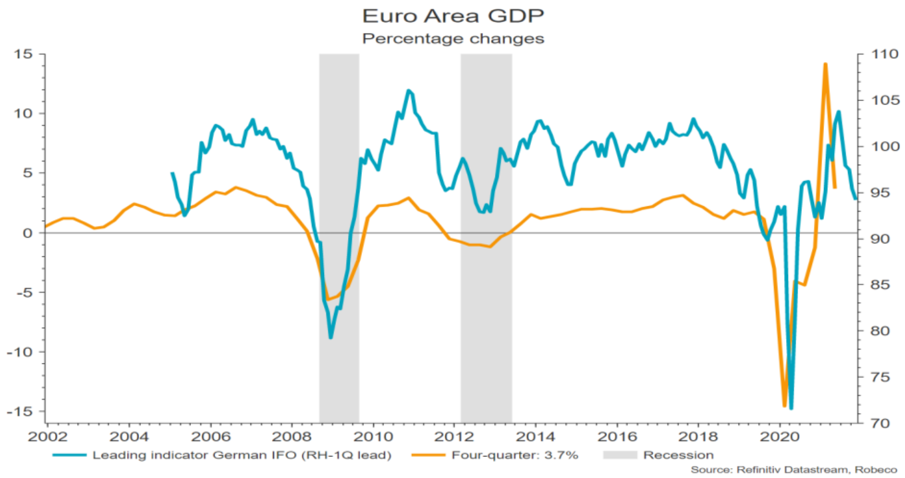
Yet another record high for services activity in the US


Source: Refinitiv Datastream & Robeco

- Global growth momentum has continued to stabilize, with cross-regional surprises to consensus macro data expectations trending up. At the same time, there is a notable underlying divergence, both cross-regional as well as cross-sectoral.
- In China, the growth picture is weakening; the Caixin leading purchasing managers index fell to 49.9 in November. New orders declined, though output growth increased as the energy crunch is fading. Consumption growth remains subdued, with no sign that policymakers are trying to ramp up consumption growth due to a zero-tolerance approach to Covid. Given the uncertainties around the new Omicron variant and with the Winter Olympics approaching, tight restrictions will likely remain in place. As the real estate sector crackdown is still ongoing, the negative impact on house prices (also from proposed property taxes in first-tier Chinese cities) could keep consumption growth sluggish. Some 70% of Chinese household wealth stems from owning properties, and housing wealth is strongly correlated with consumption growth. China's credit impulse has not troughed and points to elevated downside risks to near-term growth. However, easing measures to curb weak housing market sentiment are increasingly likely in the next few quarters, such as reserve requirement ratio cuts for domestic banks as well as a policy rate cut.
- In the US, macroeconomic surprises became positive again during November, evidencing the ability of the US economy to shrug off the impact of a stronger dollar, as well as the Covid delta wave. The US services sector is still incredibly strong, with the ISM non-manufacturing setting a new record high of 69.1 in November.

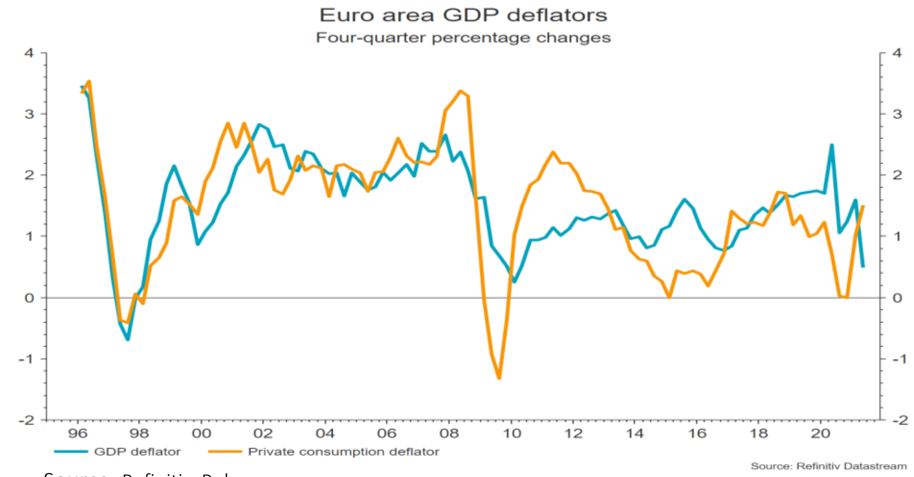
# Economy (II)

### Eurozone: Omicron and supply bottlenecks dampen growth




Source: Refinitiv, Robeco

### Eurozone GDP deflator shows real economy inflation pressures are lower than the CPI suggests




Source: Refinitiv, Robeco

- The Fed has been clearly awakening to inflation pressures from the supply side, retiring the word 'transitory' from its guidance. In response, the US Treasury curve has been notably flattening, with the 10Y-2Y spread declining from 110 bps to just 75 bps. This implies that US growth could be cooling in the medium term due to the Fed tightening monetary policy. Given historically high NIPA profit margins, the US consumer seems to be tolerating rising consumer prices on the back of a further improvement in the labor market outlook – US unemployment dropped to 4.2% in November – and healthy wealth levels.

- In the Eurozone, business sentiment overall has remained resilient in the wake of the delta wave. The November final PMI reading of 55.4 shows continued economic expansion in the bloc. However, some cracks have started to appear in the last couple of months in the Eurozone's largest economy. The IFO report shows the Covid virus and supply bottlenecks put a damper on German business climate sentiment, while the business expectations component also dropped notably. The German Bund curve flattened, signaling downside risks to European GDP growth. The IFO business cycle traffic light indicator shows a low probability of economic expansion, having switched from indicating a high probability of expansion since July. Export growth and strong domestic demand were the key drivers. The Eurozone has now almost trended back to pre-Covid GDP levels, though services sector confidence deteriorated in November, especially in tourism and hospitality. With winter approaching, Europe's energy supply instability remains a key risk factor for manufacturing activity, as gas supplies remain below their historical average and drawdowns from reserves are larger than usual.

# Equities (I)



## Regional equity momentum: markets tanked on Omicron and Fed


Source: Refinitiv Datastream & Robeco

## Equity factors: the quality factor is still in the lead YTD


Source: Refinitiv Datastream , Robeco

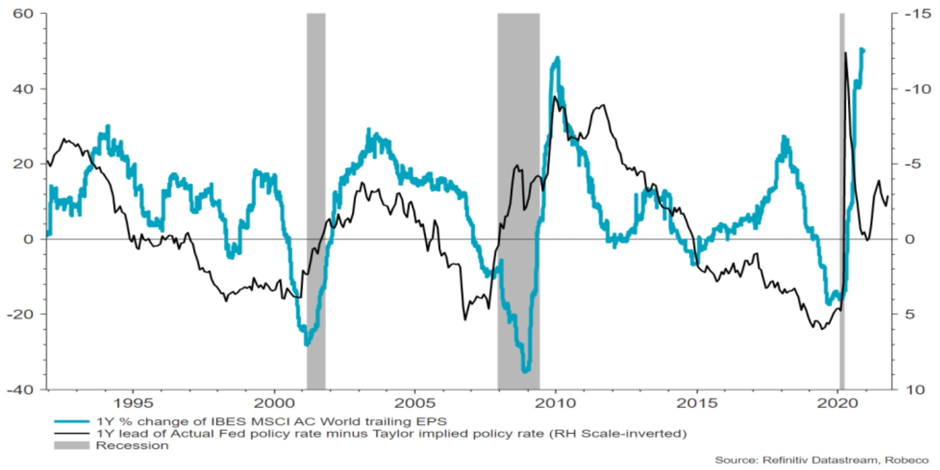
> With seasonality having turned positive in October, November stock market calendar returns are usually positive. This month, however, equity markets came under considerable selling pressure in the second half of the month, with the MSCI World index in euros gaining 0.6%, but the global index in local currency losing 1.5%. Interestingly, the global equities index in euros proved to be a very good diversifier this month, outperforming the strongest country performer in local currencies (Switzerland, +0.4%), while Spain closed the ranks losing 8.2% in euros.

> The steep sell-off in Spanish stocks can be explained by the hospitality and leisure sector globally taking a new hit as the new Omicron Covid strain showed a very high transmissibility, up to 500% more infectious compared to the initial alpha wave. However, early data from South Africa also shows hospitalization rates are considerably less, with most people testing positive for the virus strain while they were already hospitalized for something else. In a sense, this is to be seen as positive news, since it implies that Omicron could see rapid transmission globally – and therefore the ability to reach herd immunity – without significant risks to human life, the health care system, and ultimately the economy.

> The probability of near-term lockdowns in the US is low. Last month, the US services sector's leading indicator surprised again to the upside with a new record high of 69.1.

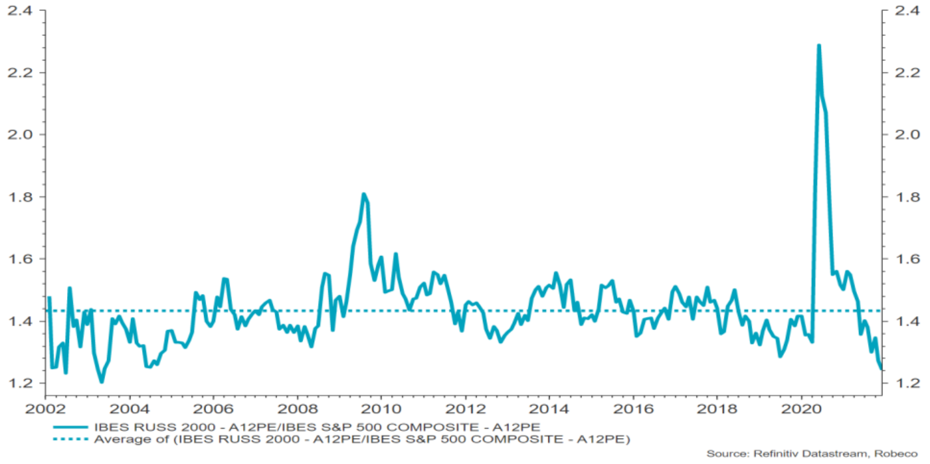
# Equities (II)

## Equity cycle: no lift-off date but the degree of tightening will be key




Source: Refinitiv, Robeco

## US equities: the Russell 2000 is attractive versus the S&P 500




Source: Refinitiv, Robeco

Then there was another scare for the markets with a hawkish turn from the recently renominated Fed Chairman Powell during his 30 November Congressional testimony. Powell commented that the Fed should “consider wrapping up the taper of our purchases perhaps a few months sooner” given that “at this point the economy is very strong and inflation pressures are high”. The Fed funds futures curve steepened in reaction, with market participants bringing rate hikes forward in time.

The anxiety of stock markets over the start of a tightening cycle is understandable given where starting valuations are with respect to history. In the next 6-12 months we expect equity valuations to become more sensitive to a modest increase in real interest rates. However, looking at the cashflow impact, it is not so much the lift-off date that matters for the global equity cycle but the degree to which the actual policy rate reflects the ‘fair value’ policy rate proxied by the Taylor rule. As the Fed likely won’t overtighten monetary policy anytime soon given the ground the US needs to cover to reach full employment, earnings growth prospects still look benign for 2022, especially in developed markets.

The positive surprises in the services sector, as evidenced by the recent jump in the ISM non-manufacturing index, shows the domestic US economy is still gaining strength on the back of a resilient US consumer. A very healthy US labor market outlook, rising wages, elevated housing-and financial wealth all bode well for a consumption path that will look much stronger (as has already been seen so far) compared to the Great Expansion of 2009-2019.

The buy-the-dip mentality is also still a generic market trait as investors added USD 10 billion to US equities during the last week of November, according to EPFR. Overall stock market sentiment is neutral to bearish.

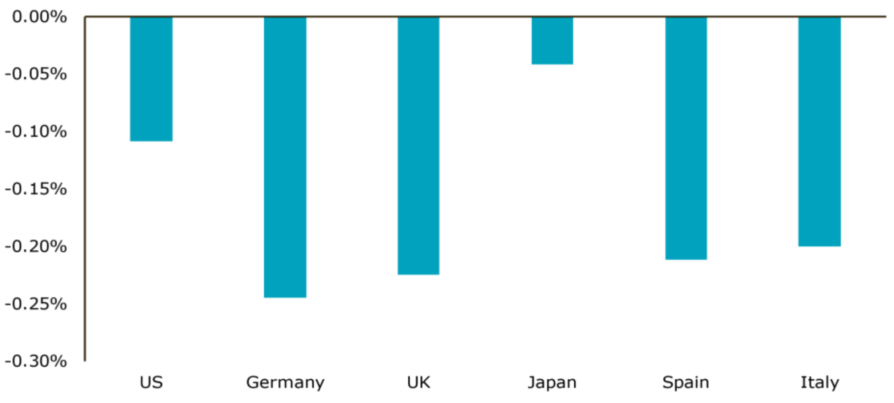


All market data to 30 November unless mentioned otherwise

ROBECO

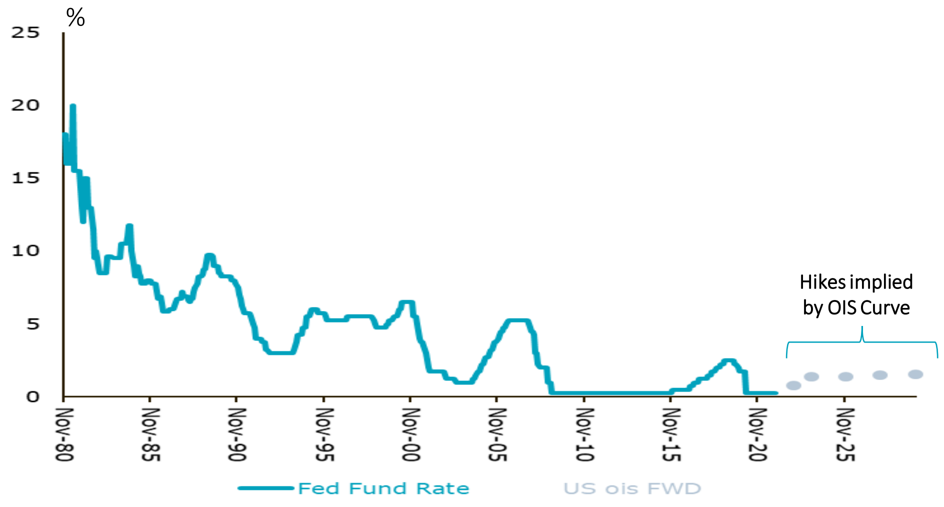
# AAA Bonds

## 10-year yields: under pressure




Source: Bloomberg, Robeco

## Fed fund rates : historically, low terminal rate expected




Source: Bloomberg, Robeco

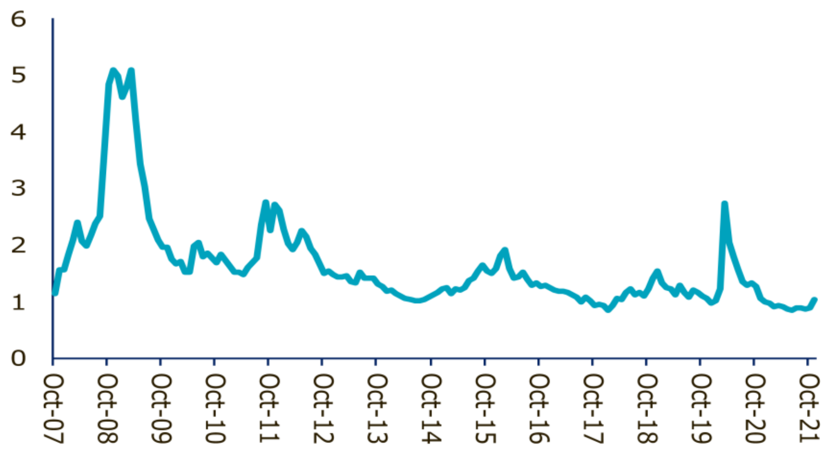
> In November, most 10-year yields ended the month lower than where they started. This move lower began at the beginning of the month and continued with only brief moments of consolidation. The US 10-year was the exception, as upward pressure built half-way through the month and the yield rose to just shy of 8 basis points away from the year's high. This upward move came to a stop around the time it became clear that Fed Chairman Powell would head the US central bank for another four years. From thereon, lockdowns in Europe, a concerning new variant of the Covid-19 virus and a hawkish Fed weighed on the US 10-years.

> Bond markets globally are faced with rising inflationary pressures. Also, the 'inflation is transitory' crowd is starting to quieten down. Even the Fed has now moved away from this 'transitory' narrative, which opens the window for faster tapering, as it implicitly means that rates can be raised earlier. At the end of November, the market expected that the first rate hike would occur sometime in the second quarter of 2022. Based on the OIS swaps curve, rate hike expectations seem to be flattening below 1.60% level. This implies a relatively low terminal rate compared to previous hiking cycles, which is having a gravitational pull on the 10-years.

> We continue to think that rates do not fully represent the strength of the US economy. We grasp the notion that if rate hikes get priced in, then that should put a lid on future inflation, and to a certain extent on growth. We only think that the economy will be able to absorb these hikes and ultimately will continue to grow at a heathy pace. Flares-ups in infections and the discovery of new variants may trigger temporary risk-off phases that will be beneficial for bonds.

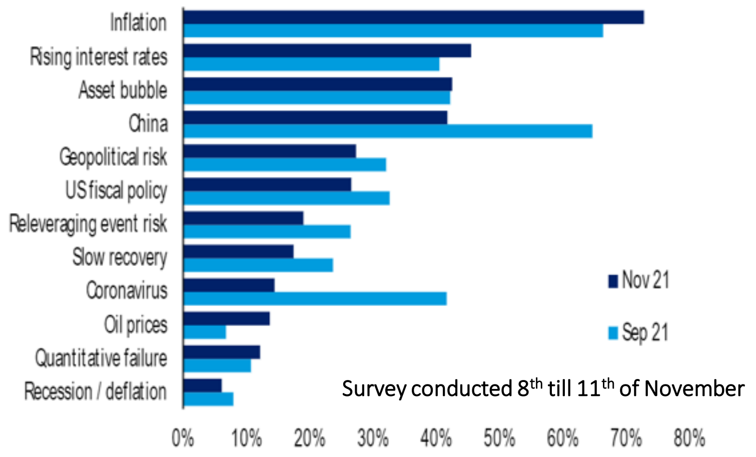
# Investment Grade Credits

## Investment grade credits widened this month




Source: Bloomberg, Robeco

## Inflation leads survey of the biggest worries for credit investors




Source: BofA US Credit Investor Survey

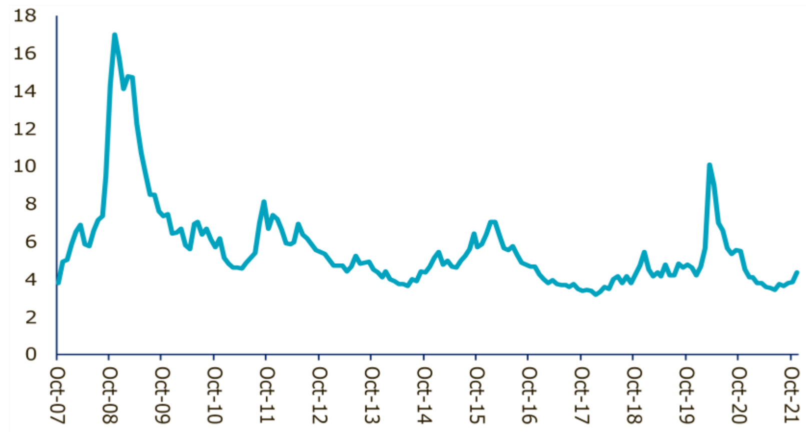
> Global investment grade bonds (denominated in US dollars) lost 80 basis points of value in November. Hedged into euros, the index managed to deliver a small profit of 11 basis points. The difference in performance is explained by the appreciation of the dollar against the euro. The spread widened by 13.5 basis point and was the main driver of returns this month.

> Things change rapidly in financial markets. Just a few months ago, stagflationary fears were the dominant driver, when now they just linger in the background. With lockdowns in some form making their comeback in Europe, nervousness about the flare-up of new infections is growing. This is a risk to watch, though currently we don’t think it will substantially derail the economic picture, unlike the threat that the continuously rising inflation rate does pose to economies.

> Our view regarding investment grade hasn’t changed. Due to the level of spread we think substantial compression is out of the question. While there is still pick-up to be collected from this, a slow meandering towards tighter spreads cannot be ruled out, and there are more interesting asset classes that offer better return prospects. High yield, for instance, offers a higher carry, while almost record low negative real yields continue to support taking risk in equities. Of course, this all depends on the economic environment being supported, which remains our base case.

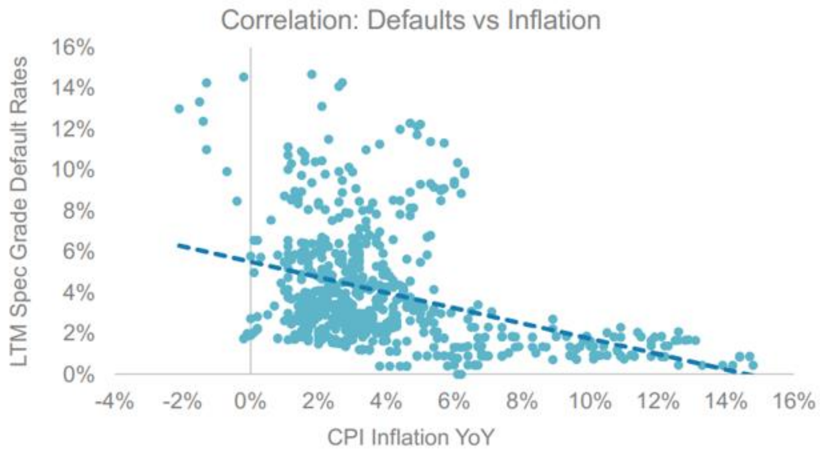
# High Yield

## Global high yield spreads widened for the third month in a row




Source: Bloomberg, Robeco

## Periods of high inflation coincide with mild default rates




Source: Morgan Stanley Research, Bloomberg, Moody's

> In November, the spread in the high yield bond market widened for a third month in a row, widening by 54 basis points as the asset class lost more than 2% of value. In the first part of the month, high yield and equities diverged. Equities continue to benefit from the relatively good third-quarter earnings season, while high yield remained under pressure.

> This all changed when a new variant of Covid-19 started to make headlines and a hawkish turn by Fed Chairman Powell led to equities coming under pressure. Current spread levels have almost reached this year's high seen in January. Spreads are currently firmly above where they started the year.

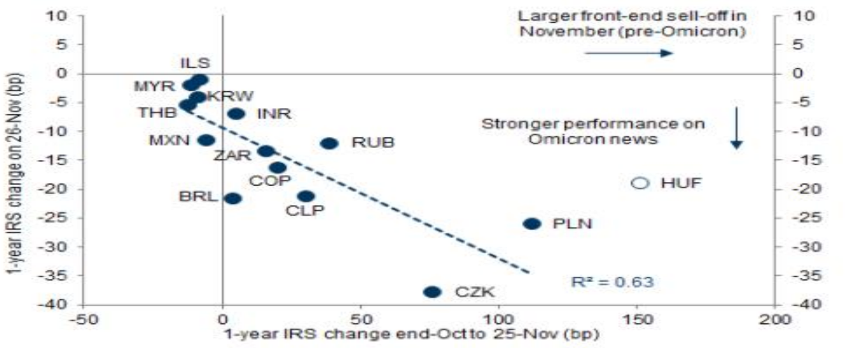
> The growth fears that haunted the market a couple of months ago seem to have moved to the background as economic numbers came in strong. The fear of inflation, however, remains real. Both market-based and survey-based inflation expectations remain on the high side; the latest CPI for the US even came in at above 6%. The Fed has now indicated that it is less comfortable with the current inflation numbers. Historically, credit markets have shown that they are better able to cope with an inflationary environment than a deflationary one. What does need to be watched is the impact that inflation can have on earnings. Given supply bottlenecks and rising wages, this could start weighing on earnings at some point, though this is currently mostly not the case.


All market data to 30 November unless mentioned otherwise

ROBECO

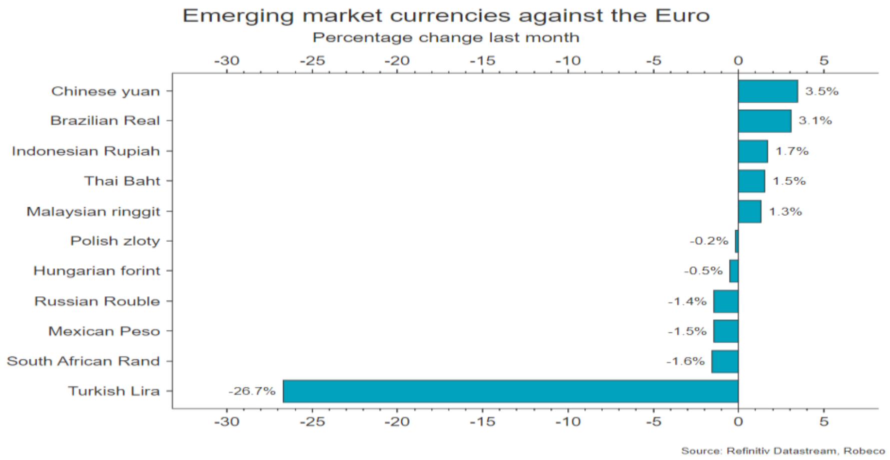
# Emerging Market Debt

### Stronger post-Omicron performance for more hawkish countries




Source: Goldman Sachs

### Turkish lira crashes as central bank cuts rates again




Source: Refinitiv, Robeco

> Emerging market debt in local currency outperformed its developed sovereign counterpart in November, generating a 1.2% return. As an asset class with a risk profile that lies somewhere between investment grade and high yield bonds, it is notable that EMD also comfortably outperformed developed market high yield and investment grade in November. This was a month which saw turmoil around the emergence of a new Covid strain and a hawkish turn by the Fed in retiring the buzzword 'transitory' regarding inflation.

> The strong relative performance of EM local rates amid a value-at-risk shock could indicate that risk premia in EMD local yields are close to fully priced. Several EM central banks pre-empted the Fed by embarking on a rate hike cycle earlier this year. The local rates markets with the most hawkish outlooks have also rallied the most since the Omicron news broke.

> The index yield of the JP Morgan GBI-EM Global Diversified index increased in November to 5.75%. Despite a lot of bad news having been priced in, there is still room for upward inflation surprises in emerging markets. Rising input costs for agricultural production (fertilizer) could put upward pressure on EM CPI baskets via high food price-related inflation. Also, it remains to be seen whether the new Omicron strain is disinflationary in nature. The OECD has warned that inflation will only abate once the virus is brought under control. The new Omicron strain might not be as virulent as delta, but its high transmissibility is a risk for emerging markets, with vaccination rates significantly below those of developed markets. In South Arica, only about one third of the population has been vaccinated.

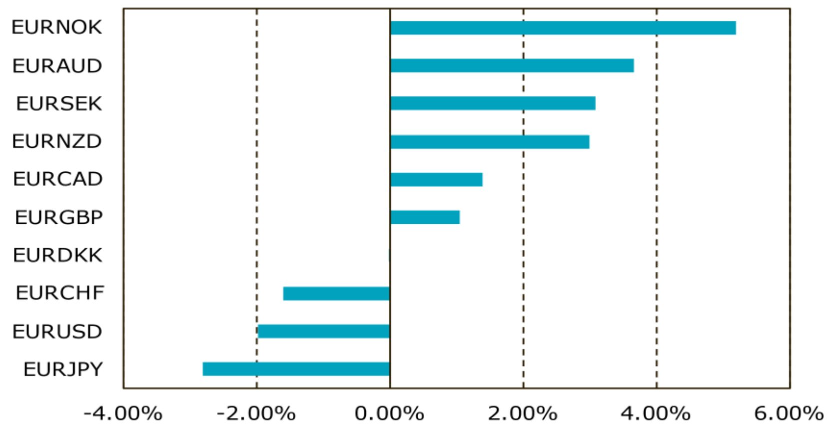


All market data to 30 November unless mentioned otherwise

ROBECO

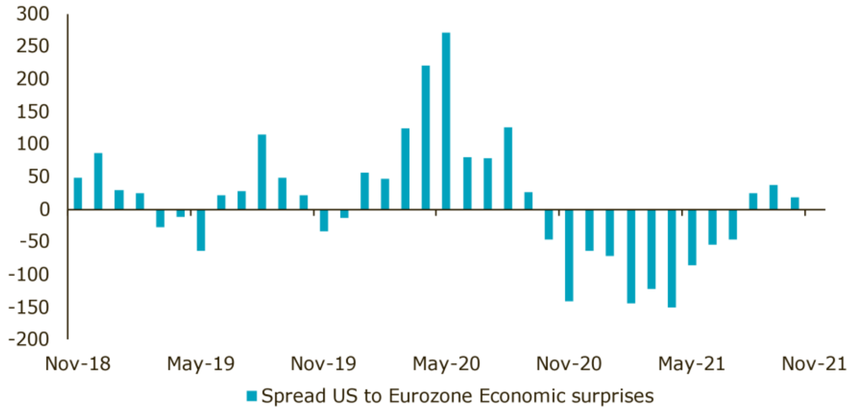
# FX

## Defensive currencies within G-10 are the big winners




Source: Bloomberg, Robeco

## Economic surprises: the US is outpacing Eurozone




Source: Bloomberg, Robeco

> November turned out to be a more difficult month for risky assets. Initially the positive momentum of October carried over to November; the S&P 500 even made a new all-time high half-way through the month when the US CPI hit 6.2%. The inflation number initially didn't scare financial markets until the Fed turned more hawkish by stepping away from its narrative that inflation is transitory.

> This change in narrative came on top of new lockdown measures in Europe and the appearance of a new variant of the Covid-19 virus with troubling mutations. Risky assets subsequently came under pressure towards the end of the month and defensive currencies lived up to their reputation as safe havens. In G-10, the losers were the cyclical and commodity currencies. The drop in oil prices weighed heavily on the Norwegian krona, and currencies with relatively attractive interest rates fell out of favor as safe havens and investors migrated instead towards low yielders such as the Japanese yen and Swiss franc.

> The US dollar was already strengthening firmly against the euro before the turn in sentiment. This was driven by expected rates hikes by the Fed due to improvement in the economic numbers and rising inflation. After a long stretch of disappointing data, economic surprises turned positive. On a relative basis, US economic surprises are also outpacing Eurozone surprises.

# Important information



## Additional Information for US investors



## Additional Information for investors with residence or seat in Canada