ROBECO
The Investment Engineers

Bond yields suggest an unlikely recession

- ECB rate cut and stimulus package aims to tackle slowdown
- Stronger Q3 will diminish pessimism about Eurozone recovery
- Macro outlook: Draghi's fiscal policy is no longer restrictive
- Asset allocation: we remain positive on equities and high yield

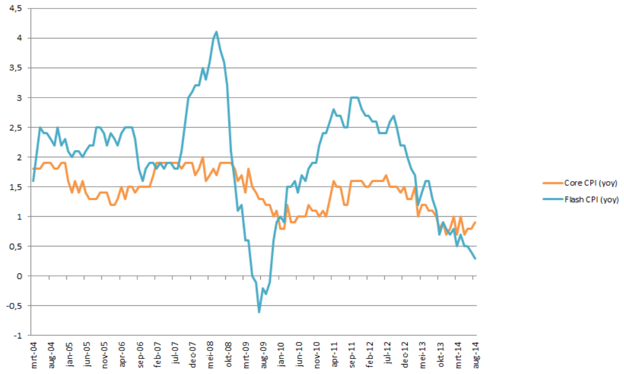
Topic of the month: The impressive bond rally goes on

Eurozone bond yields are now so low they suggest a recession is imminent, though the European Central Bank's dramatic action in September along with other more positive macroeconomic factors make that unlikely. Rates were cut again after the Eurozone recovery came to a halt in the second quarter. GDP growth amounted to exactly 0.0% compared to the previous quarter, while gross fixed capital formation dropped 0.3%. The German economy shrank, somewhat surprisingly underperforming France, and the third-largest economy, Italy, fell back into recession. The economic impact of the Ukraine crisis has been much larger than expected, primarily due to its confidence-damaging nature. As a consequence, bond yields have come down to amazingly low levels: German 10-year yields are currently below 1.0%, and Italian yields are currently 2.3%. For the privilege of lending up to three years' money to governments such as Germany, investors now pay a premium.

The continuing relentless bull run on bond markets was the striking development this August. Aside from the weakening of the European economies, the downtrend in actual inflation and the growing fears of Japanese-style stagnation that can all explain these low yields, they are also a reflection of the likelihood of further aggressiveness by the European Central Bank. 'Don't fight the ECB' could be an appropriate motto. We consider the likelihood of a new European recession to be small. We expect a stronger third quarter for a number of reasons and continue to expect an ongoing recovery of the Eurozone economy. The main risk to this scenario would in our opinion be a severe further escalation of the tensions between the West and Russia.

Ukraine crisis ending in a frozen conflict?

Further drop in Eurozone Flash CPI



Source: Bloomberg, Robeco

Evidence is mounting that the German economy is being hit by the ongoing jitters over the Ukraine crisis. German businesses are very cautious about making new investments. Gross fixed capital formation declined 2.3% in the second quarter. But the Ukrainian crisis is now showing signs of becoming less heated. Russia has made it clear that it won't allow a destruction of the pro-Russian separatist region in Eastern Ukraine by sending sufficient troops and weaponry. On the other hand it has demonstrated a cautious attitude because the change in the military balance has not resulted in an offensive to take cities such as Odessa or Kiev. The logic of the situation suggests a stalemate, a so called 'frozen conflict'. The Eastern Ukrainian provinces including a land bridge to recently annexed Crimea will remain firmly under Russian control, but hostilities will end, paving the way for what will most likely be long-winded negotiations. The current, rather weak sanctions will remain in place, with limited economic impact. Under these circumstances business confidence in Europe could rebound.

Of course, the current de-escalation in Ukraine could in the end turn out to be a "judo-inspired trick" by Russian President Vladimir Putin, who has a black belt in the sport. During the winter, when Europe is much more vulnerable to an immediate cut-off of Russian gas, tensions could rise again, though it should be kept in mind that countries such as Germany are already in a position to withstand a five-month boycott. The ultimate aims of the Russian leadership remain unclear. It could easily decide to stir up ethnic tensions in the Baltic region. Possibly we have only seen a couple of moves in what could turn out to be a very long chess game. We cannot be sure. But for the time being, our baseline scenario is a de-escalation of the conflict.

Shale gas revolution helps world economy

Eastern Europe is not the only region in which geopolitical tensions are flaring up. The Islamist insurgency in Iraq is a potential threat to oil supply, although Brent oil prices are trending down from their peak in June. An important factor is the shale oil revolution in the United States. It is currently acting as a 'supplier of last resort', a role earlier taken by Saudi Arabia. It is highly uncertain how long the shale oil revolution will last, but the currently well-behaved oil prices are a boon for the world economy, including the Eurozone. The price of oil is an important factor driving down headline inflation. Core inflation in the Eurozone is still 0.9% on a yearly basis, despite all the talk about deflation.

Accommodating monetary policy weakens the euro

The ECB played its part by marginally lowering interest rates to 0.05% and announcing a buying program of Asset Back Securities (ABS), suggesting a possible size of one trillion euros. As the current European ABS market is not well developed, this potential size looks ambitious. It will take time to implement the ABS program and its beneficial effects will be gradual. But in so far as the program helps to weaken the euro it immediately benefits European exporters. Very strong confidence indicators in the US (an ISM manufacturing reading of 59, non-manufacturing 59.6) benefit the US dollar as well. The ECB has still one weapon of last resort - generalized QE of sovereign bonds. But this weapon will only be used if the European economy weakens materially further. This option remains clearly on the table and will help keep down the euro and long-term interest rates.

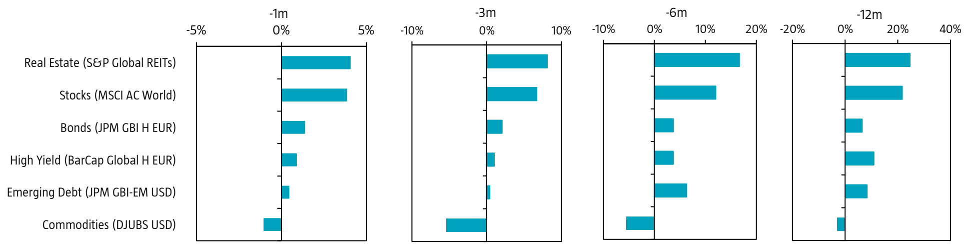
Macro outlook: Fiscal policy is no longer restrictive

During the Jackson Hole summit, ECB president Mario Draghi sketched the outline of a grand bargain, in which the ECB would do more in exchange for fiscal stimulus (in Germany) and structural reforms (in France and Italy). Chances of meaningful reform packages in France and Italy are low, but there is already a political agreement about a flexible interpretation of existing budgetary rules within the Stability and Growth Pact. Automatic stabilizers in the Eurozone will as a consequence probably get more room to maneuver in the coming months and governments within the Eurozone will start to make a more positive contribution to economic growth.

Remarkably low interest rates and tight sovereign spreads within the euro area will stay with us in the coming months as long as the ECB keeps its easing bias. The search for yield implies that the Eurozone is currently exporting low interest rates to the US, where 10-year bonds offer a yield of about 2.5%. But as the US economy will continue to strengthen, talk about the timing of the first interest rate hike will get louder, and gravity could be reversed: US long-term interest rates may push up those in Europe. A necessary condition would be a resumption of the European recovery, which partly depends on geopolitical developments. Our baseline scenario is a stronger Q3 GDP which will diminish pessimism about the European recovery. As a consequence we see little value in European and US government bonds at current yields.

Asset allocation: With bond yields at new lows, we prefer high yield and equities

Performance of asset classes (gross total return) – stocks continue to be monthly winners



Source: Thomson Reuters Datastream, Bloomberg, Robeco

We are becoming less enthusiastic on high yield

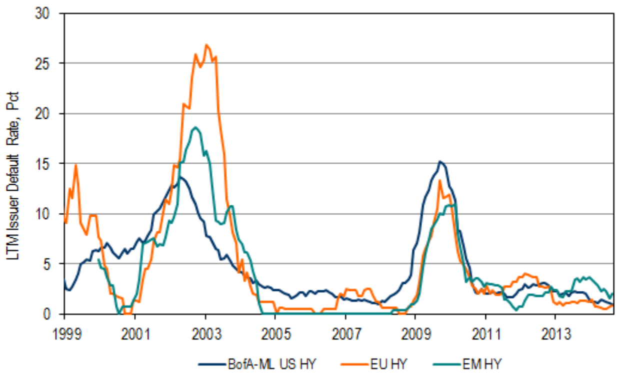
We remain overweight, but are getting less enthusiastic about high yield. In the July outlook we cautioned that high yield bonds are a 'double edged sword', and the sudden but sharp outflows in this asset class around the start of August confirmed their volatile nature. Spreads widened more than 50 basis points, but compressed later in the month. We think the correction is related to the warning in a July speech by US Federal Reserve chairwoman Janet Yellen about 'stretched valuations' in pockets of the credit market and the gradual deterioration of the underlying credit quality of this asset class. The growing issuance of covenant lite securities has ended complacency and clearly raised worries about heady valuations. However, the broader environment of still-subdued growth and benign inflation remains favorable, and the recent ECB easing measures are an additional boost for risky assets. In the meantime the search for yield will continue, albeit at a more measured pace, in a market that seems assured of central bank forward guidance.

Looking ahead, we expect somewhat higher default rates, as leverage in corporate balance sheets has increased further, and the rising rates that we envisage will aggravate the leverage effect on cashflows and interest coverage ratios on lower-quality issuers. We therefore remain vigilant in the medium term. Although the market has fired a warning shot, investors are still willing to pay a relatively high price for additional carry. Another point of concern remains the level of covenant-lite high yield issuance and the diminished liquidity of brokerages for this asset class.

Investment grade credits are unattractive

We maintain the view that, when corrected for risk, high yield remains more attractive than the ultra-low rates that investment grade credits offer. But as yields in the euro investment grade credit market are now even below those of a global government bond index, neither the yields nor the spreads are looking relatively attractive to us. The spread component is priced for perfection. Downside risk has become more substantial as the ECB has hit the zero lower-bound level and the bond market has moved accordingly to ultra-low rate levels. Any reacceleration in the macroeconomic momentum or a pick-up in inflation in the Eurozone could lead to higher sovereign bonds rates, which will correspondingly lead to lower price returns on investment grade. The recovery in the periphery looks promising, but it still has a long way to go and won't be without a glitch, as the recession in Italy has shown. Higher credit spreads may ensue if banking stress test results disappoint later this year. The bottoming out of disinflation in the Eurozone, stimulated by a lower euro and more stable energy prices, could push nominal capital market rates higher, eating into the remaining spread buffer of investment grade bonds.

Eurozone default rates for high yield did not fall further

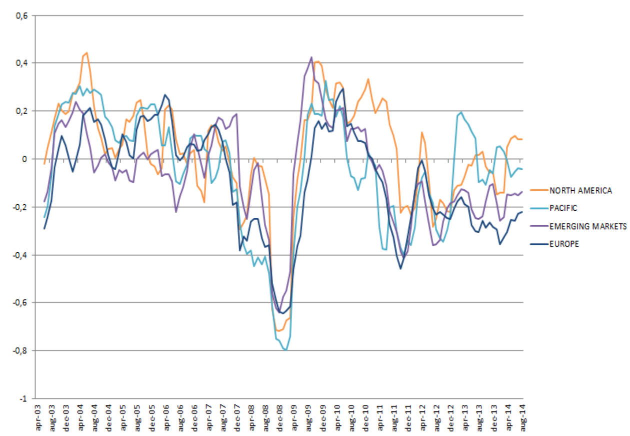


Source: Bloomberg, Bofa ML, Robeco

We remain optimistic about equities

Global equities continued their rally after the mild correction around the start of August. The correction ended the complacency which seemed to take hold on investor sentiment in the preceding months. Although not at the forefront of market interest, the possible geopolitical impact of the Russian-Ukrainian conflict and the insurgency of the Islamic State in Iraq and Syria (ISIS) group have not been negligible. Russian credit spreads have almost returned to pre-crisis levels, though a peace deal remains uncertain. The longer the conflict lasts, the more likely it becomes that European equities will take a hit if new Western sanctions backfire through Russian energy-related retaliation as we head towards the winter. Equity sentiment has remained positive overall, with US markets even reaching a new all-time high. However, in their search for yield, equities are one of the few places with a decent risk-return reward. From a forward-

Earnings revisions: US has seen upgrades outpace downgrades



Source: Datastream, Robeco

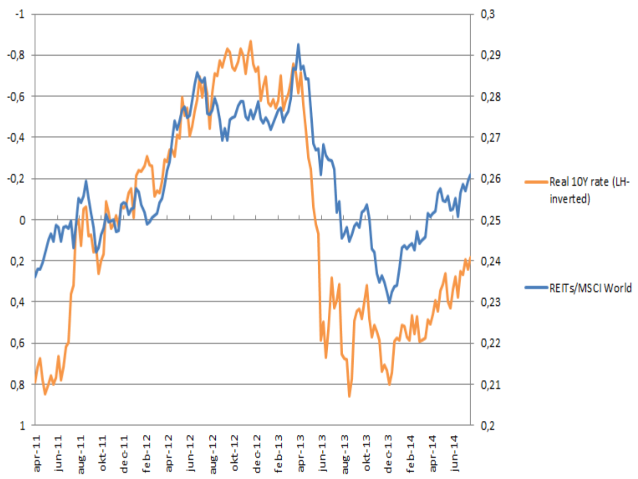
looking macroeconomic perspective, developments have been benign for equities, as capital markets rates have declined and the US consumer is getting more upbeat, which will lead to increased sales. For the US, this story has already translated into positive earnings surprises, as the majority of US corporates posted larger-than-expected earnings over the first half of 2014. With central banks still in easing mode and the macro picture improving, the equity market remains supported as we leave the summer behind. This will also put less emphasis on worries about elevated valuations as earnings growth will likely keep pace with price appreciation in developed countries.

Low capital market rates support profit margins

The recent decline in capital market rates and still-benign wage growth will continue to support profit margins. Also, subdued capital market rates are beneficial for sustaining current equity valuations. We will continue to watch interest rates and wage growth developments closely as we think these are key variables for the earnings story.

Underweight in real estate as valuations are stretched

REITs outperform equities as real interest rates decline



Source: Bloomberg, Robeco

A positive sentiment towards the more conservative part of the risky asset spectrum has sustained real estate performance since the start of the year. The unexpected rally in Treasuries is clearly one of the driving factors behind this performance. The Eurozone real estate market seems less sensitive to rate developments in the US, especially as the ECB took further easing measures last month. Given our expectation for rising interest rates as the economic recovery in developed markets picks up pace in the second half of the year, plus the stretched valuations, we remain underweight in real estate compared to equities. Our quant models also give a short signal for real estate in the US. Nevertheless, momentum and sentiment remains quite positive for the real estate market in the short term. However, from a valuation perspective, real estate is expensive compared to equities, especially in the US and Japan. This valuation gap is compensated to some extent by higher dividend yields.

Emerging market debt experiences drag from political risk

We remain underweight emerging market debt versus high yield. The attractiveness of EMD has increased markedly due to a spread that is 100 basis points higher. EMD spreads have remained almost flat since the end of last month. Valuations have become more attractive as spread compression has been lower than the high yield market. We also notice that leading indicators are turning more positive, indicating that the macroeconomic picture overall should improve, which should trigger spread compression.

However, we are not outrightly positive as there is a reason for this lower spread compression. Current account deficits in emerging markets are still significant from an historical perspective and a further adjustment process could require further nominal depreciation of currencies in the medium term. Emerging market currency volatility has also coincided with the decline in US Treasury volatility, which could resume around the end of Fed tapering in the autumn. If rates rise in the US, as we expect in the remainder of this year, the asset class is still at risk.

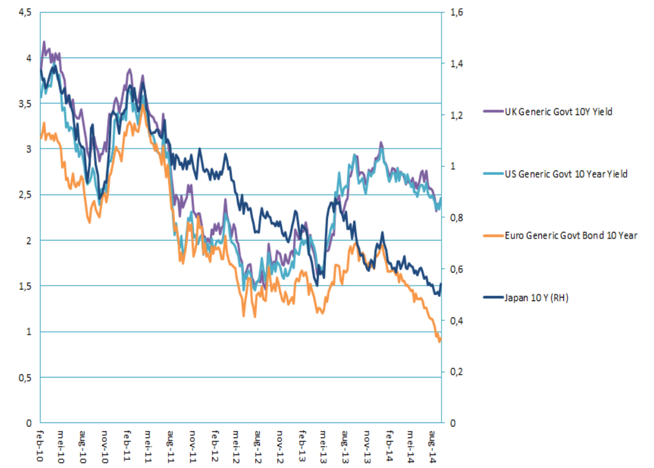
Political risk has not vanished either, with the ongoing Ukrainian-Russian conflict which could impact Hungary and Poland, both of which are EMD issuers. Political risk is a major pricing factor for credit risk in emerging market economies. The decline in the oil price last month could help lower inflation in net oil-importing emerging countries, but is a burden for net oil exporters within EMD countries, so it remains a mixed bag. There is reason to remain selective and to err on the side of caution. We expect continuing divergence within emerging markets according to differences in export orientation, current account balances, fiscal and monetary policies, and political stability.

Emerging market debt spreads have recently not fully reflected currency risks

Negative on government bond markets

We remain negative on government bonds as we expect nominal rates in developed markets to rise later this year. We have made the call on previous occasions that from a valuation and macroeconomic perspective, the outlook is clear: rates should go up. After Draghi hinted at the Jackson Hole summit of more easing because of declining inflation expectations, he delivered by lowering the policy rate by another 10 basis points, now effectively hitting the zero lower bound range.

The impressive German 10-year bond rally ..



Source: Bloomberg, Robeco

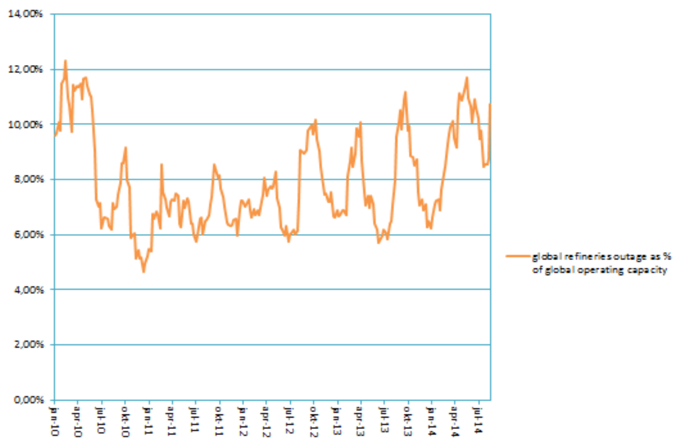
The market had anticipated easing in the form of Asset-Backed Securities (ABS) purchases and quantitative easing (QE) as evidenced by an impressive rally in German sovereign bonds, but were surprised by this last gasp of the conventional ECB toolkit. It is questionable how long the surprise will last as the underlying inflation picture was more benign as the market had discounted. Core inflation rose to 0.9% and the flash CPI has been distorted by the significant decline in Brent oil prices. More stable oil prices in combination with higher imports inflation could change the inflation picture towards the end of the year. A lower euro, regaining German export strength as China rebounds, and lower energy bills in the Eurozone could cause the strong momentum in bonds to reverse.

Also, strong macroeconomic momentum from the US could spill over through higher Treasury rates to the Eurozone market. Although the Fed has reiterated its accommodating stance, an improving labor market and higher inflation numbers will make the 'lower for longer' message from Yellen harder to maintain. High yield bonds have better relative risk/return profiles. We therefore prefer non-investment grade corporate bonds to government bonds as high yield provides a decent spread buffer against rising interest rates.

Oil price decline not likely to accelerate

The view that we formulated in June to remain neutral on commodities despite strong momentum and sentiment to enter long positions has proven justified. The oil price has declined by 12% since its peak in mid-June, partly as speculators' long positions were unwound due to the rise of ISIS in Iraq. In the unlikely event that total Iraqi oil production gets disrupted, strategic OPEC reserves will be released to rebalance supply. Surprisingly low refinery demand also contributed to the decline in Brent prices. Looking ahead, strengthening emerging market production could realign demand upwards for the remainder of the year. However, global supply remains ample, with OPEC supply able to offset severe supply disruptions. The three main drivers this year of commodity prices - extreme weather, geopolitical risk and worries about the Chinese growth path - remain largely intact, making different impacts on different commodities within a broad index.

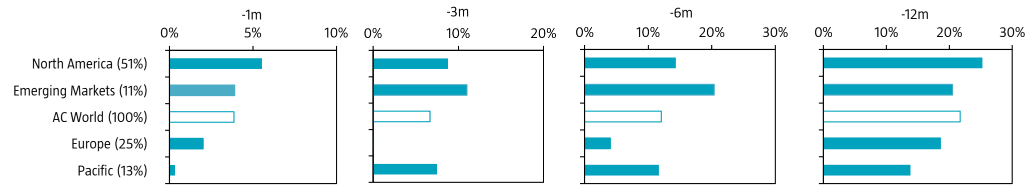
Low refinery demand for oil because of refinery outages



Source: Bloomberg, Robeco

Regional asset allocation: We remain underweight Europe, overweight emerging markets

European equities performance lags other major regions past 3 months



MSCI AC World unhedged EUR; index weights between brackets

Source: Thomson Reuters Datastream, Robeco

We are overweight emerging market equities as we believe that relative valuations are favorable. They still trade at a discount of 25% to those in developed markets on a number of valuation metrics. Momentum remains positive as well and has been almost unshaken by the correction we have seen in other regions around the beginning of August. The macroeconomic picture is also improving, with leading indicators showing emerging markets to be slowly heating up. We expect an end to the growth deceleration in emerging markets versus developed markets towards the end of 2014. Sentiment remains positive but remains vulnerable due to the discussion about Fed policy (end of Fed tapering), geopolitical developments (Ukraine, Russia, Iraq), and political risk (elections in Brazil). However, the country composition of emerging market equities is less sensitive to political risks and Fed tapering than emerging market debt, due to the potential currency impact of perceived Fed tightening.

More bright spots for US compared to a few months ago

We remain neutral on North America, but note that there are more bright spots coming through compared to a few months ago. Price momentum has remained favorable with only a mild correction of 4% in the US stock market at the around the end of July compared to the 10% correction in European equity markets. Around 70% of the companies in the S&P 500 have surprised with higher-than-expected earnings reports over the first half of the year. We also observe that earnings revisions for US companies remain the most positive for all regions. The US economy is gradually firing on more cylinders, pushing the US macro surprise index up briskly, spurred by cyclical highs in car sales, consumer credit growth and job openings. US non-farm payroll numbers showed continuing improvement in the labor market, with around 200,000 new jobs added each month and manufacturing sector activity showing accelerated expansion. Earnings growth could remain strong with higher sales volume as the consumer gradually returns because of higher spending power, while still-subdued capital market rates provide a tailwind for corporates in the US. However, earnings multiples in the US are still at peaks and investors have already anticipated a lot of the expected good news. Wage growth will also limit further expansion of profit margins from peak levels, although this should not be the largest risk in the near term. The end of Fed tapering in November could bring more volatility in the US market.

North America shows positive earnings revisions

	Earnings growth (%)			Earn. rev. index		P/E on 12m fwd earn.	
	FY1	*FY2*	*12m*	*3m*	*1m*	*Current*	*10y avg.*
North America	7.3	11.6	10.3	8.3	3.5	15.9	14.0
Europe	6.1	12.9	10.4	-22.0	-18.3	14.1	11.8
Pacific	9.2	7.5	7.6	-4.4	-9.3	14.1	15.0
Emerging Markets	6.5	11.5	9.9	-13.7	-14.3	11.3	10.8
AC World	7.1	11.4	9.9	-5.7	-9.3	14.6	13.1

Earnings and valuation data of regions (MSCI AC World). The earnings revisions index is calculated by using the difference between the number of up- and downward revisions relative to the number of total revisions.
Source: Thomson Reuters Datastream. Robeco

Europe: equity valuations are less favorable

We remain negative on Europe. The recent measures by the ECB, in which it hit the zero lower bound range in policy interest rates, will only have a marginal positive impact on the earnings per share of European corporates. Momentum for European stocks has been negative and the ECB will most likely not be able to turn the tide in the near term. Macroeconomic momentum in the Eurozone has declined. Producer-and consumer sentiment in Europe has been hit by troop escalations at the Ukrainian eastern border as Putin engages in a semi-covert war. Although a peace deal with Russia seems possible, the illegal annexation of Crimea has damaged relationships with Europe and will be a near-term drag on growth in the Eurozone. More stringent Western sanctions against Russia could backfire and worsen producer sentiment as the winter approaches and Putin's energy weapon becomes more valuable for him. However, on the positive side, a lower euro through an accommodating ECB could improve competitiveness for European corporates, and the significant decline in Brent prices that have fallen 12% since June lowers production costs. Valuations are high on a pan-European and on a cross-regional basis. Earnings revisions on a 3-month horizon, which have some predictive power for equity returns in the near term, are still the least favorable of all regions.

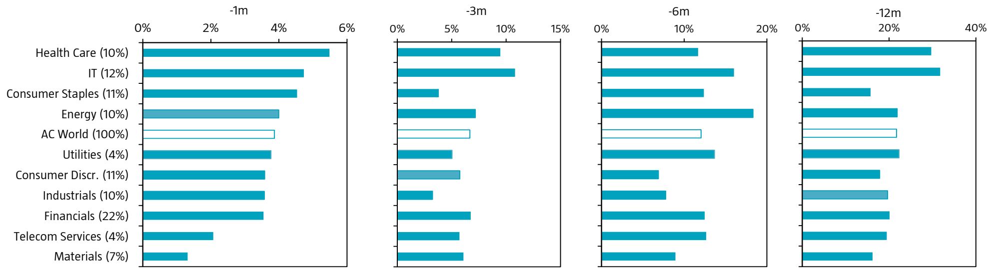
Asia Pacific: progress on third pillar of Abenomics remains a worry

We retain our neutral stance on Asia Pacific although macro figures form China signal a modest rebound in activity, giving more confidence that China will navigate the economy further away from a hard landing. For Japan, we are now more constructive, paradoxically because we see few signs of the necessary improvement in the third pillar of Abenomics – introducing structural reform– and note that the VAT tax hike of last April has hit the economy even harder than the 1997 hike. The slowing in real activity will likely bring forward action by the Bank of Japan (BoJ) to weaken the yen further and stimulate the export-dependent economy. Japanese earnings revisions have been positive, which bodes well for equity returns. Also, the Nikkei has lagged the yen depreciation which gives upward potential for Japanese stocks, although this could partly be the result of diminishing return prospects from yen weakening for Japanese exporters. Nominal wages rose, but as inflation increased to 3.7% -

the highest level since 1991 - real wages fell further in Japan, restraining the spending power of domestic consumers. However, the benign inflation scenario could also lead the BoJ to remain confident in its current monetary stance and not ease further in the near term, especially as it will await further commitment from Prime Minister Shinzo Abe on realizing his third pillar goals. Equity valuations for Asia Pacific are still comfortably below their 10-year averages.

Sector allocation: We remain overweight cyclicals

Strong performance of IT, but overall cyclicals lag improved economy



MSCI AC World unhedged EUR; index weights between brackets

Source: Thomson Reuters Datastream. Robeco

We still prefer cyclical sectors as their performance has lagged macroeconomic growth which has surprisingly accelerated instead of declining. This disconnect with stronger macroeconomic figures is unclear , but could be due to the worsening geopolitical sentiment around Ukraine, Iraq and the outbreak of Ebola in West Africa. We expect the US economy to accelerate further in the second half of this year and expect the (belated) catch-up of cyclical companies with the improved cyclical strength of the economy. These developments, together with the continuing search for yield, keep us more positive on cyclicals relative to defensives. The end of the tapering of Fed purchases later this autumn will not pose a major threat for cyclical performance as we find that growth companies outperformance is positively correlated with a higher probability of a Fed hike in the next meeting.

Cyclical versus defensive sectors – improved earnings revisions for the IT sector

	Earnings growth (%)			*Earn. rev. index*		*P/E on 12m fwd earn.*	
	FY1	***FY2***	***12m***	***3m***	***1m***	***Current***	***10-yr avg.***
Energy	9.7	7.2	7.6	-7.0	-21.1	12.5	10.8
Materials	16.1	16.1	12.8	-12.8	-14.3	14.7	12.2
Industrials	13.3	13.3	12.3	-8.2	-14.2	15.3	14.1
Consumer Discr.	8.3	15.7	11.2	-13.9	-6.9	15.5	15.2
Consumer Staples	4.7	9.9	8.4	-28.7	-46.4	18.1	15.9
Health Care	8.9	11.2	10.9	19.7	-1.4	17.2	14.3
Financials	7.2	12.2	10.4	-2.4	5.7	12.3	11.3
IT 13.4	11.2	11.5	8.4	7.8	15.5	15.5	
Telecom Services	-2.8	8.1	2.9	-3.4	-3.7	15.2	13.6
Utilities	-0.5	8.4	1.9	-5.9	-12.9	14.9	13.8
AC World	8.2	11.5	9.9	-5.7	-9.3	14.6	13.1
AC WORLD REITS	-13.9	1.3	0.6	0.0	0.1	29.9	N.A.

Earnings and valuation data of sectors (MSCI AC World). The earnings revisions index is calculated by using the difference between the number of up- and downward revisions relative to the number of total revisions.

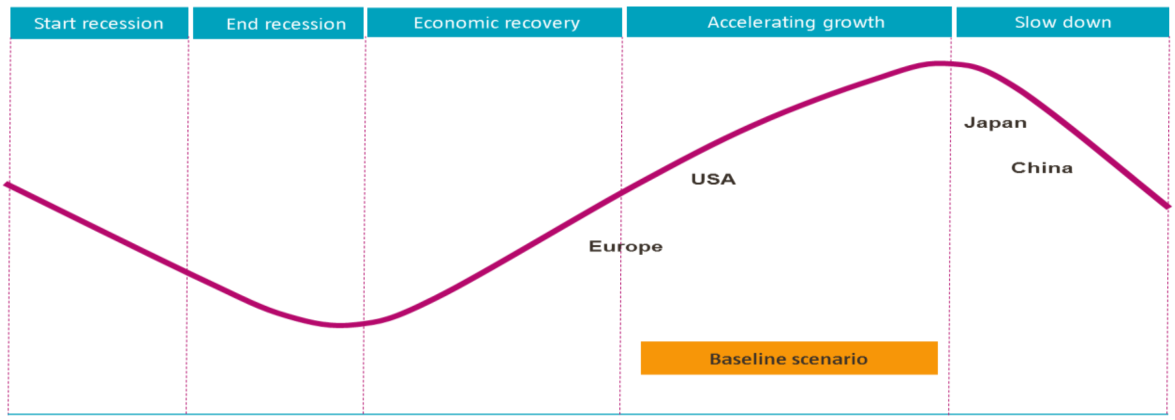
Source: Thomson Reuters Datastream. Robeco

Position in the economic cycle: We continue to foresee a gradual recovery

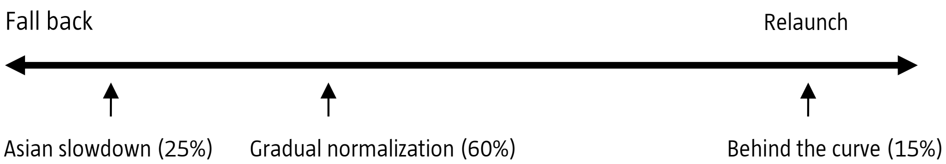
Macroeconomic scenarios and Robeco's view versus consensus

The world economy is developing positively, led by the US and the UK. Our baseline scenario foresees a further gradual recovery. 'Abenomics' is running into difficulties now that the VAT hike has kicked in. The Japanese central bank will eventually act energetically to weaken the yen. The Chinese authorities have quietly implemented a successful mini-stimulus. The Eurozone economy came to a standstill in the second quarter, but we expect a resumption of the earlier gradual, broad-based improvement. Our alternative, pessimistic scenario foresees a weaker global economy caused by slowing growth in Asia. In a positive scenario, the world economy is showing surprising strength, but central banks are unwilling to act correspondingly. As a result, inflationary risks will increase.

Position in the economic cycle – Europe lags other major economies



Macroeconomic scenarios: a gradual normalization is the most likely outcome



Source: Robeco

Robeco's expectations for growth are higher than consensus for the Eurozone, UK and Brazil

GDP growth by region (%)	*2013*	*2014*	*2015*	*Δ-1m 2014*	*Robeco**
US	1.9	2.0	3.0	0.3	+
Eurozone	-0.4	1.1	1.5	0.0	+
UK	1.8	3.1	2.6	0.1	=
Japan	1.7	1.2	1.2	0.0	=
China	7.7	7.4	7.2	0.0	=
India	4.6	5.0	4.7	0.0	=
Brazil	2.3	0.9	1.8	-0.4	+
Russia	1.5	0.5	1.8	-0.2	=

* indicates whether we expect a higher (+), matching (=) or lower (-) inflation rate than the current consensus estimate for 2014

Source: Consensus Economics, Robeco

Robeco's expectations for inflation in Russia higher than consensus

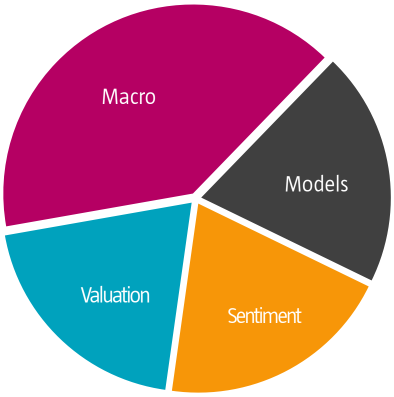
CPI by region (%)	*2013*	*2014*	*2015*	*Δ-1m 2014*	*Robeco**
US	1.5	2.0	2.2	0.1	=
Eurozone	1.3	0.6	1.2	-0.1	+
UK	3.1	1.7	1.9	-0.1	+
Japan	0.3	2.8	2.2	0.0	=
China	2.6	2.4	2.9	0.0	=
India	9.5	9.5	7.8	0.0	=
Brazil	5.9	6.4	6.3	0.0	=
Russia	6.5	6.8	7.2	0.0	+

* indicates whether we expect a higher (+). matching (=) or lower (-) growth rate than the current consensus estimate for 2014

Source: Consensus Economics. Robeco

Robeco's multi-asset management approach

Input factors for our investment policy



Our expectations are based on qualitative and quantitative analyses. Our starting point is to look at the long-term macroeconomic environment. We then determine our expectations for the economy for the next three to six months to find out which developments could take the market by surprise, as this is a common factor for all asset classes. This macroeconomic analysis determines our initial preference in terms of assets.

Next, we challenge our macroeconomic analysis with input from financial markets. Here, we take valuations into account as at extreme levels this might cause the performance of an asset class to change direction. Sentiment also plays a role as markets tend to extrapolate shorter-term trends if investors put too much weight on recent developments. Finally, we use quantitative models to steer our expectations.

The table below shows our current multi asset allocation table.

	Portfolio	BM	active	previous
Equities Developed Markets	31.0%	25.0%	6.0%	5.0%
Equities Emerging Markets	6.0%	5.0%	1.0%	1.0%
Real Estate Equities	2.5%	5.0%	-2.5%	-2.5%
Commodities	5.0%	5.0%		
Core Gov Bonds 1-10	15.0%	20.0%	-5.0%	-5.0%
Core Gov Bonds 10+	7.5%	7.5%		
Investment Grade Corp Bonds	19.0%	20.0%	-1.0%	-1.0%
High Yield Corp Bonds	9.0%	5.0%	4.0%	5.0%
Emerging Market Bonds LC	5.0%	5.0%		0.0%
Cash	0.0%	2.5%	-2.5%	-2.5%
EUR/USD	-4.0%	0.0%	-4.0%	-4.0%
EUR/JPY	1.0%	0.0%	1.0%	1.0%
EUR/GBP	0.0%	0.0%		
EUR CASH	3.0%	0.0%	3.0%	3.0%
Portfolio risk	5.85%	5.28%		

Closing date for text: 05 September 2014. We refer to calendar months in all our data tables.

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