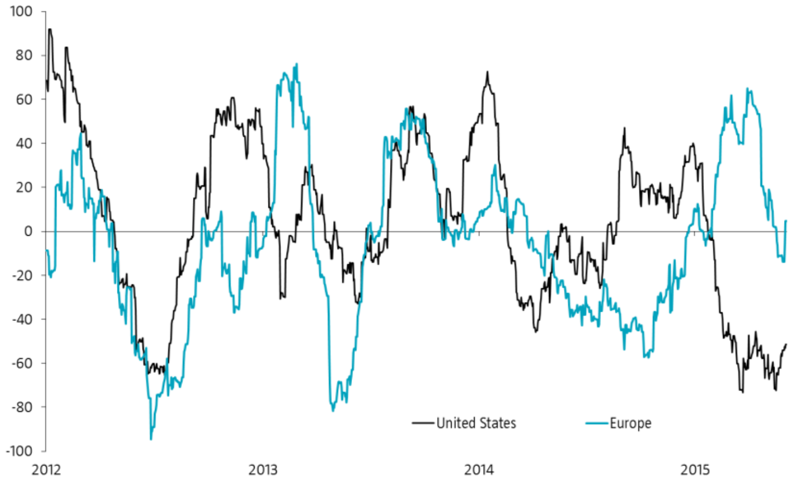
ROBECO

Multi-asset markets outlook

June 2015

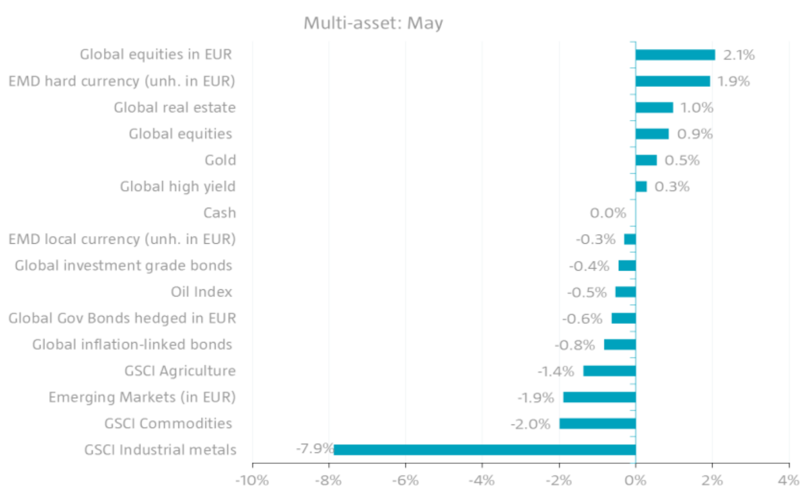
General overview

Economic momentum has weakened



Citigroup surprise index

Equities outperform bonds and commodities



- Volatility has been the name of the game, but not where you would have necessarily expected it. The bond, currency and commodities markets have seen some big moves in recent months, with European bonds in particular experiencing some exceptional (and somewhat puzzling) shifts over the past month and a half. A lack of liquidity and unwinding of positions have been cited as the main driving forces. We understand the unwinding part – we also felt the pain, but since when has the German bond market been illiquid? We are somewhat disconcerted by the 80 bp rise in 10-year German yields especially at a time when the ECB has decided to frontload its bond buying program…

- While some financial markets have been notably volatile and hectic, one of the usually most volatile ones has been surprisingly quiet: the equity market. In general, equities have continued to drift higher, defying weaker macro-economic data, political tensions and volatility seen elsewhere. With equities now up 7% for the year and earnings not keeping pace with that rise, underlying valuations have become more expensive since the start of the year. High valuations, increased signs of stress in selected parts of the financial markets and political tension in various places, have triggered us to reduce our current overweight in equities to neutral, while we at the same time expect the dollar to strengthen from now on.

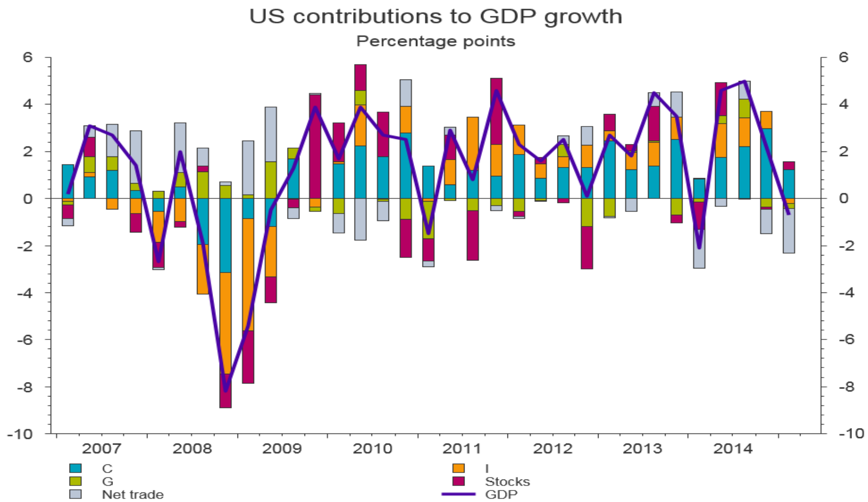
ROBECO

General overview

	Portfolio	BM	active	previous	tracking error	risk budget
Equities Developed Markets	25.0%	25.0%		2.0%	0.00%	0.0%
Equities Emerging Markets	5.0%	5.0%		0.0%	0.00%	0.0%
Real Estate Equities	5.0%	5.0%		0.0%	0.00%	0.0%
Commodities	5.0%	5.0%		0.0%	0.00%	0.0%
Core Gov Bonds 1-10	20.0%	20.0%		0.0%	0.00%	0.0%
Core Gov Bonds 10+	7.5%	7.5%		0.0%	0.00%	0.0%
Investment Grade Corp Bonds	18.0%	20.0%	-2.0%	-2.0%	0.05%	-0.6%
High Yield Corp Bonds	7.0%	5.0%	2.0%	2.0%	0.07%	3.3%
Emerging Market Bonds LC	5.0%	5.0%		0.0%	0.00%	0.0%
Cash	2.5%	2.5%		-2.0%	0.00%	0.0%
EUR/USD	-5.0%	0.0%	-5.0%	-1.0%	0.39%	80.7%
EUR/JPY	2.5%	0.0%	2.5%	1.0%	0.26%	16.5%
EUR/GBP	0.0%	0.0%		0.0%	0.00%	0.0%
EUR CASH	2.5%	0.0%	2.5%	0.0%		
Portfolio risk	4.56%	4.45%				

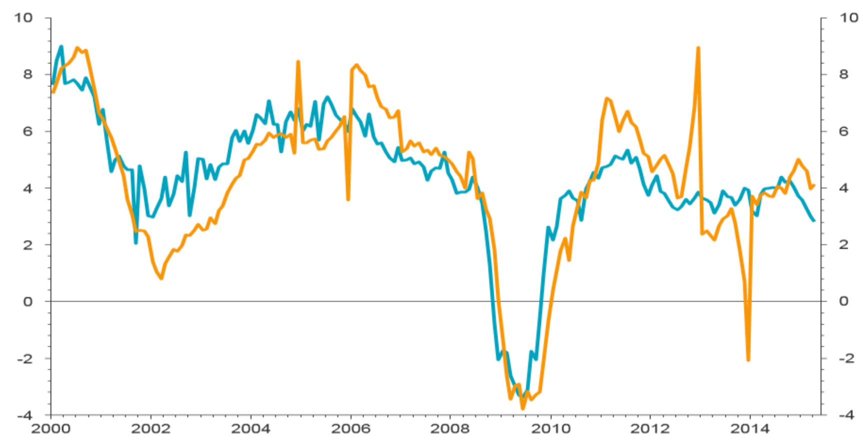
United States

GDP revision shows US economy shrinking in Q1



Source: Thomson Reuters Datastream

US consumer still reluctant



Source: Thomson Reuters Datastream

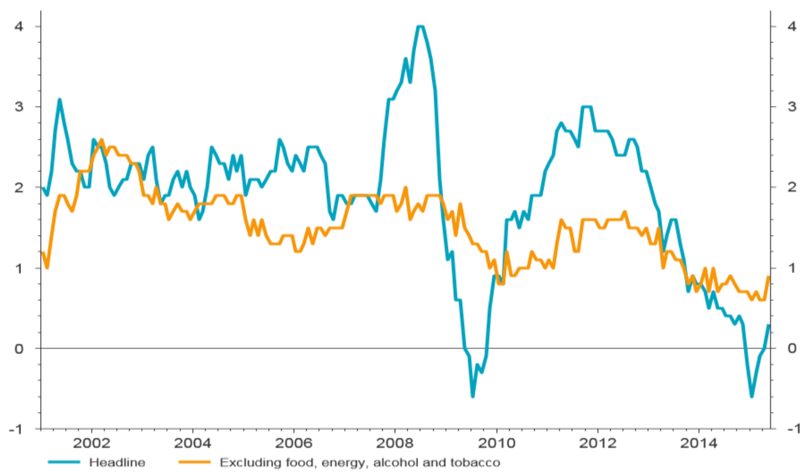
- The first revision of US Q1 GDP data, showed a decline of 0.7%. The data are distorted, however, by the effects of unusually severe winter weather in some pockets of the US. Moreover, trade data have been affected by the long labor conflict troubling western ports. Finally, there seem to be problems with the seasonality factor – the US has experienced unusually weak first quarters for several consecutive years now – so it no longer seems to be a reliable signal of the 'true' underlying momentum of the economy.

- Representatives of the FOMC appear to be undeterred by the weak Q1 GDP figures, believing them to be a temporary blip and are still signaling a first rate hike in the third quarter. This makes them more hawkish than the market, which is only predicting a rate hike at the end of 2015.

- The reluctant US consumer appears to be holding back growth too. Rather than spending his oil price windfall dividend, he is topping up his savings. This indicates ongoing uncertainty about the future. We lower our forecast for US growth this year towards 2.5%. Inflation will be moderate. Still, a first rate hike in September remains the most likely scenario, but will be more the result of a wish to end zero rates, than any indication of future aggressive monetary policy.

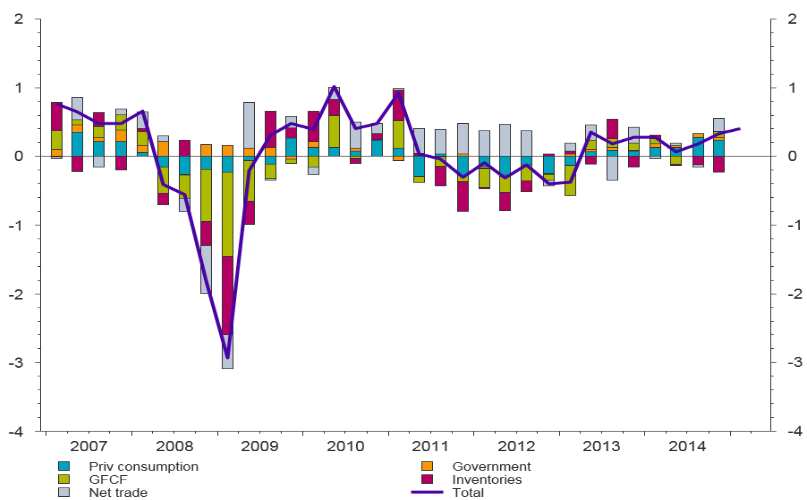
Europe

The end of deflation in the Eurozone



Source: Thomson Reuters Datastream

Consumption primarily driving GDP growth



Source: Thomson Reuters Datastream

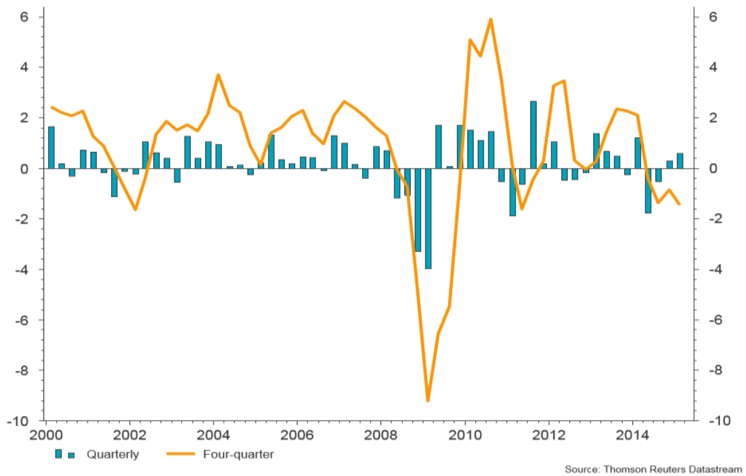
- The Eurozone economy will continue to accelerate in the second quarter with Spain leading the field, but also Italy showing signs of recovery. Domestic consumption has been an important driver in the first quarter. We expect this to continue, but also to see more support from the external sector. We maintain our 2015 growth forecast for the Eurozone at 1.75%.

- Partly thanks to the weaker euro, deflation was eradicated in May. Headline inflation is now 0.3% and core inflation has risen towards 0.9%. At this stage we do not expect the ECB to waver in their commitment to end QE in September 2016 at the earliest. However, the discussion on tapering is likely to come much too soon from the point of view of the ECB's decision making council, fuelled by issues such as credibility and a need to have inflation of around 2.0% . This means that the likelihood of QE continuing to September 2016 has declined, but for the time being this won't be a theme in financial markets . At the end of this year, the discussion on tapering could start to heat up.

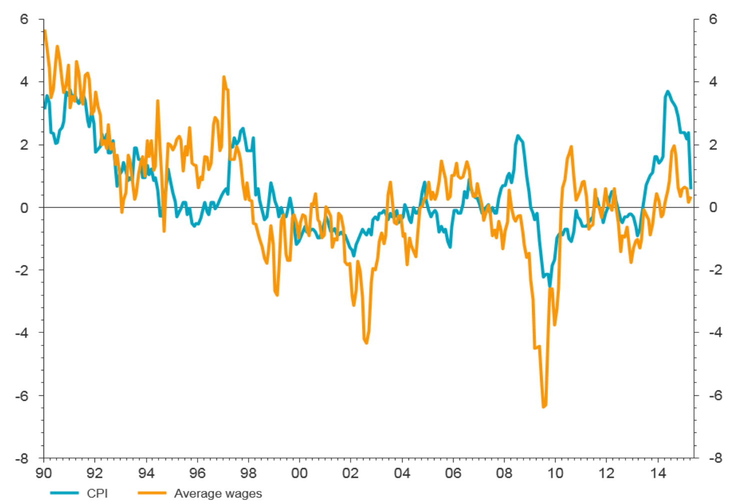
- The stand-off between Greece and its creditors will probably end in a temporary agreement where more leeway on deficit adjustment will be traded for structural reforms. We should be prepared for more difficult negotiations ahead.

Japan

Japan's GDP continues to improve



VAT hike drops out of CPI, modest wage growth

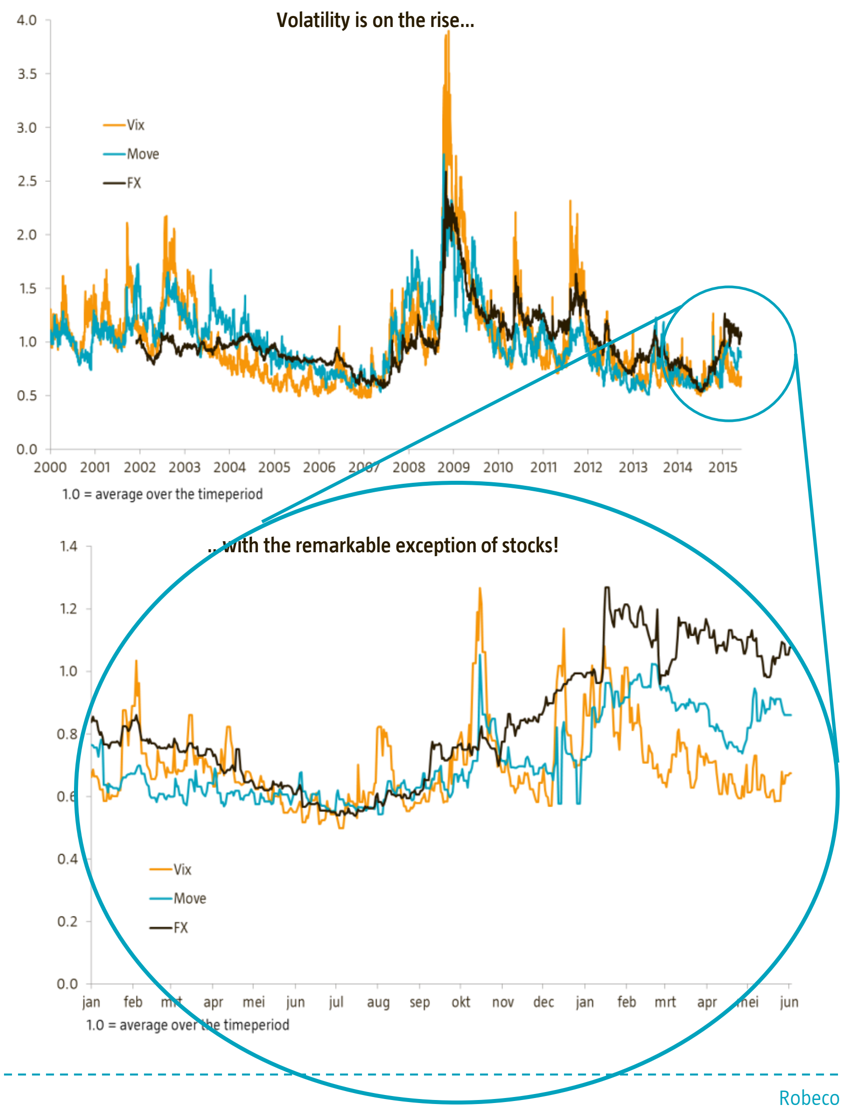


- The Japanese economy showed unexpected strength in the first quarter. But its GDP figures are notably volatile. Moreover, increased inventories were mostly responsible for the growth, which sows the seeds of doubt as to the sustainability of this upswing. We see no need to adjust our 1.0% growth forecast for 2015.

- The effect of the VAT hike last year is now dropping out of the CPI figure. May Tokyo CPI (ex food and energy) declined to 0.1% on a annual basis. As utility charges will be cut in July, core inflation could easily be pushed into negative territory. So we are still a long way from the BoJ's 2.0% inflation target. Some additional stimulus by a reluctant Bank of Japan looks therefore inevitable, but probably not before the third quarter.

- The Government Pension Investment Fund (GPIF), which oversees more than USD 1 trillion worth of assets, announced substantial changes to its asset allocation policy last October, reducing its government bond target from 60 percent to 35 percent and doubling its targets for foreign and domestic stocks to 25 percent each. It is widely anticipated that other pension funds, with estimated combined assets of around USD 250 billion, will adopt similar policies by the end of the year, lending support to the Japanese stock market.

Equities (I)

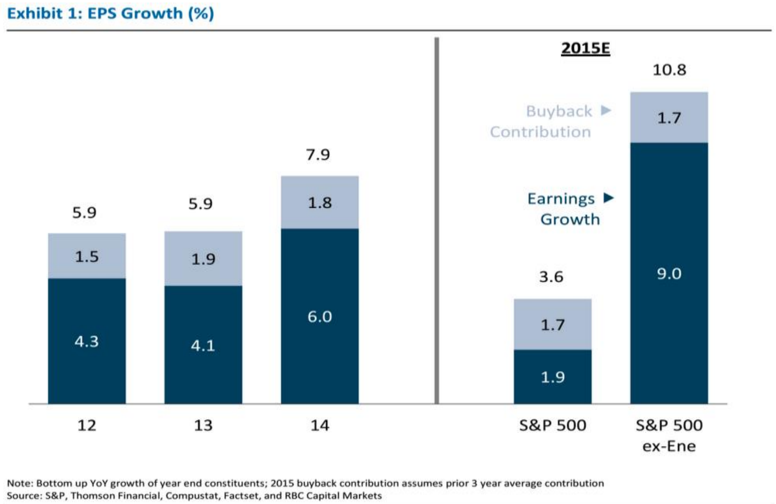


- When we published our outlook for 2015 at the end of last year, we flagged increased volatility as one of the main themes for the year to come. Divergence in economic growth throughout the world, the first steps toward monetary tightening in the US and UK and the fact that most financial assets had already reached expensive levels all pointed into the increased likelihood of volatility. Volatility we expected, volatility we got. Oil prices collapsed, the dollar soared (although not as much as the Swiss franc), while European bonds got a severe beating shortly after yields dropped to unprecedented lows. There was one remarkable exception to this trend though: equities. The rise in volatility witnessed in bonds (as captured by the MOVE index) and FX (the FXVIX index) coincided with a steady decline in the volatility in stocks as measured by the VIX Index. Going back to 2000, this is the first time that we have seen such a divergence in favor of stocks...

- So what is causing this? Theoretically, a subdued level of volatility could be the result of a stable earnings outlook, or because most macro-data has been in line with expectations. This has certainly not been the case, though. US macro data surprised on the downside (the weakest reading since 2011), showing a remarkably strong divergence from the positive trend seen in Europe. While at the same time, earnings forecasts in US were revised down dramatically

Equities (II)

Increased focus on share buybacks has reduced EPS volatility and supported stocks



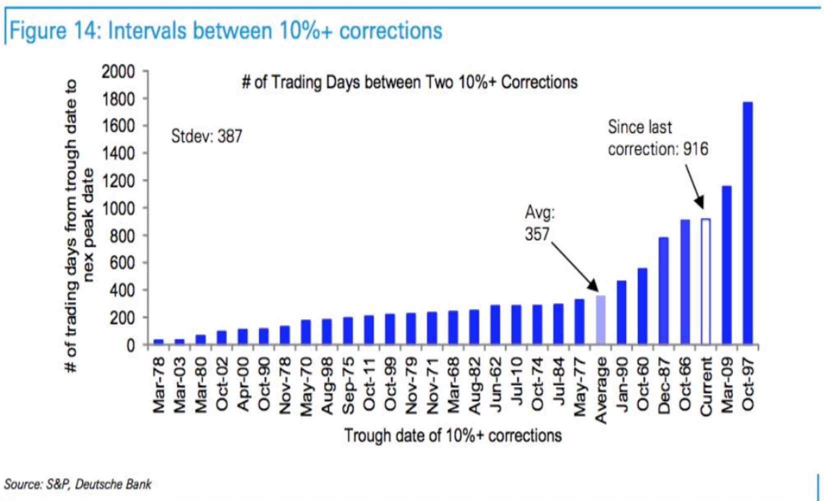
Where is the volatility, when you expect it?

on account of the negative spillover from the low oil price and the strong dollar. European earnings on the other hand have been upgraded, in an opposite response to the strong currency moves seen during the last six months or so. The fact that this diverging earnings outlook has been closely linked to movements in the currency markets, only raises more questions: why has there been so little spillover from the other financial markets into stocks? Part of the reason is probably related to the increased merger and acquisition activity, while some can be probably be attributed to the steady stream of share buybacks, but otherwise it is difficult to explain. One could venture to suggest that it is linked to the accommodative monetary policy pursued by central banks, to the promise 'to do whatever it takes' but it is difficult to see why that promise would prove to be more effective in equity markets than for bonds, where the central bank buying is actually taking place.

- Irrespective of the reason, looking at the MSCI World Index in local currency terms, stocks have gradually drifted higher in the first five months of the year, yielding a net total return of 7% year to date. Although this is in line with our overweight position in equities, we are now less certain that this steady rise will continue for much longer. For one, this 7% increase has not been matched with equal earnings growth, which means that stocks have become more expensive

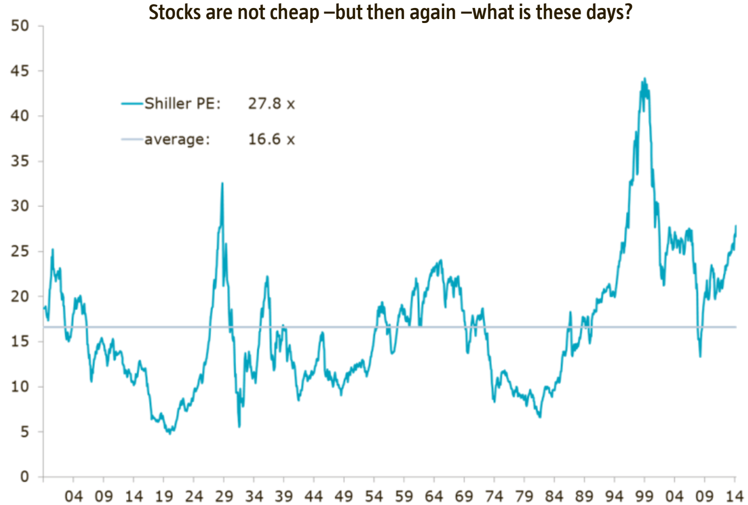
Equities (III)

The rally in US stocks has been pretty impressive



Source: S&P, Deutsche Bank

Stocks are not cheap –but then again –what is these days?

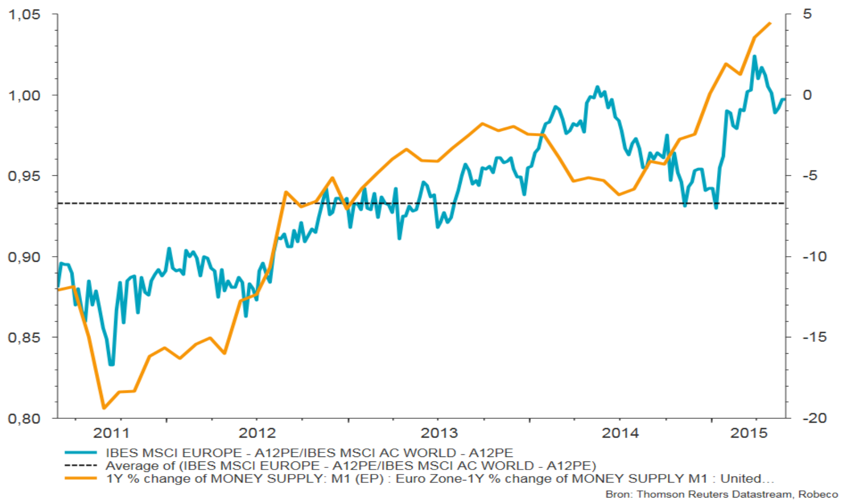


- in this period. Second, our arguments for higher volatility are still valid, even though the divergence in worldwide economic growth is going to be less extreme then we originally expected. Third, we think it is unlikely that equities will continue to drift higher unaffected by the volatility seen in other markets. European bonds have shown some hefty moves on the back of liquidity worries – somewhat odd for one of the most liquid markets in the world. Fourth, there is considerable political tension, most of which is being ignored by the markets, ranging from Greece and Ukraine to the South China Sea. And finally, it is once again the time of year when equity investors are historically not compensated for the volatility risks they take on board.

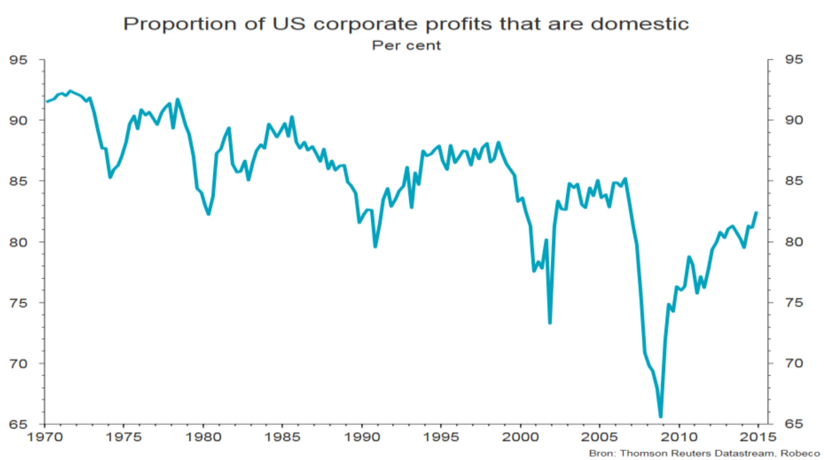
- Is this an environment in which we should stick to our overweight position in equities? The simplest way to answer that question is by posing a different question: what do we think is more likely to happen next: a further 10% rise, or a 10% correction – albeit a temporary one? Although we can certainly not rule out the former, we certainly feel that the odds for the second option have risen in recent months. Based on that premise, we do not think an overweight position is still warranted, which is why we are reducing our exposure back to neutral. From a longer term perspective we continue to think stocks will move higher, but as we expect volatility to rise, we prefer to take our chips off the table for now.

Equities: regional split in developed markets

European valuation discount erased as ECB relaxed monetary stance



The US consumer counts as US corporates have a large domestic profit base

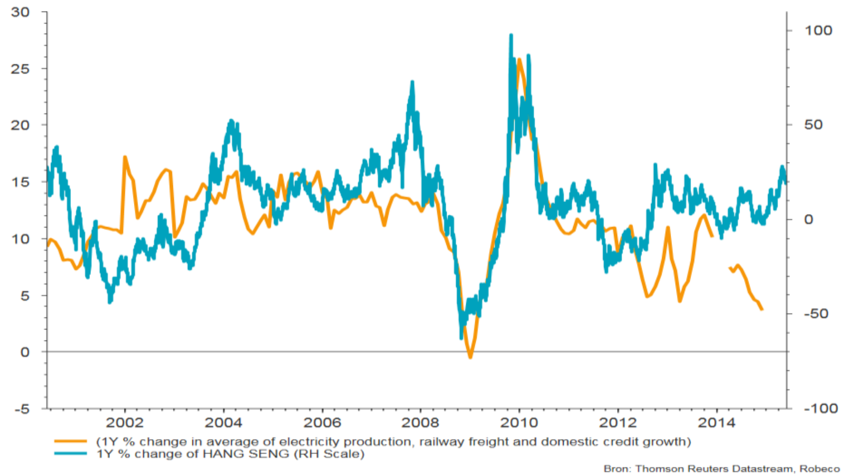


- Valuations in Europe increased further compared to the US last month with forward multiples now at 16.4 times as the ECB reiterated its plan to stick to its bond buying plan. The traditional discount at which European equities trade relative to their US counterparts has almost completely vanished in recent months. These elevated European valuations make European outperformance more difficult given that economic momentum is expected to shift in favor of the US. Meanwhile, the Fed's Yellen reassured the market last month that the future interest rate movements will be moderate , which makes stretched US valuations less likely in the near term. S&P 500 performance has also been fairly resilient to rate rises in the past, partly because rate hikes signal growth. Japan remains relatively cheap, and its current forward multiple is around its 10-year average 12-month P/E of 15.6x.

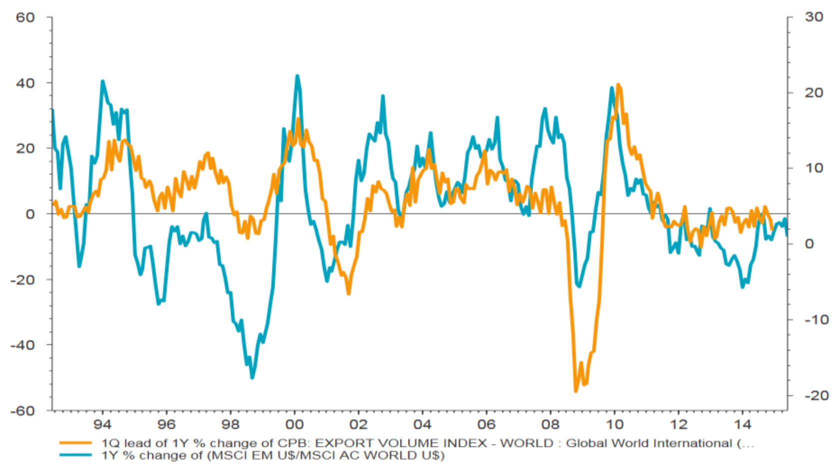
- Relative momentum in dollar terms for developed markets is currently most positive for the US. Japanese momentum has been weakening, while European momentum remains positive. Given the expected turn in economic momentum in favor of the US and the benign impact of a future rate hike on US equities, we prefer to overweight the US while underweighting Europe. We maintain our overweight position in Japan as yen weakening and low commodity prices could fuel further gains.

Equities: Emerging vs Developed (I)

Real activity China shows discrepancy with equity market



Flattish world trade volume hampers EM relative performance



- The discrepancy between economic fundamentals and the Chinese stock market becomes more striking by the day. The Chinese central bank has injected further stimulus into the Chinese economy and particularly retail investors, in search for yield, have anticipated this by shifting their investments to the stock market. Millions of new stock accounts have been opened this spring and heavy margin lending also suggests an irrational exuberance. Although rate cuts should give activity a cyclical boost, we doubt whether the stock market rally will be sustainable. Valuations have shot up as well and expected earnings growth is far from impressive. Revisions for 12-month forward earnings have been negative for more than a year now. However, while the government remains in stimulus-mode momentum could stay strong in the near term.

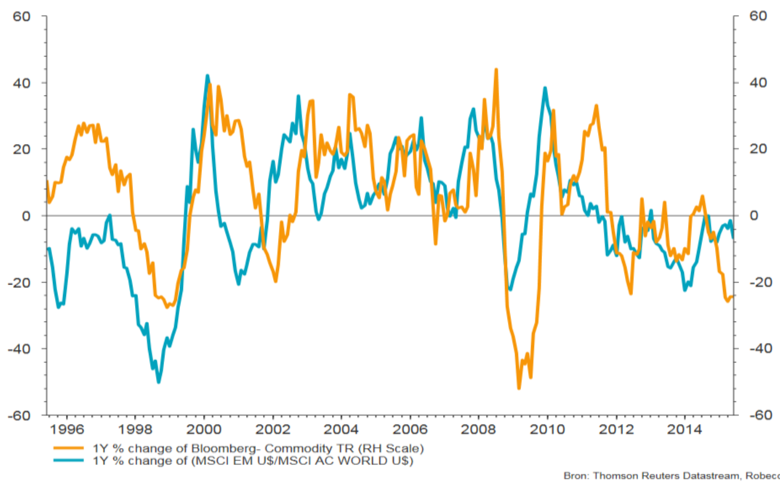
- The rebound in the oil price has not helped major oil exporter Russia, although credit default swaps indicate that risk premiums have declined. The yield curve still shows a bear flattener and recent industrial production figures indicate that the recession is deepening. Brazil also still has tough times ahead although the end of the hiking cycle may be in sight. High external debt to GDP and dollar financing will put pressure on the country as the dollar continues its rally. The overall slowdown in commodity prices is not helping the outlook for Brazil.

ROBECO

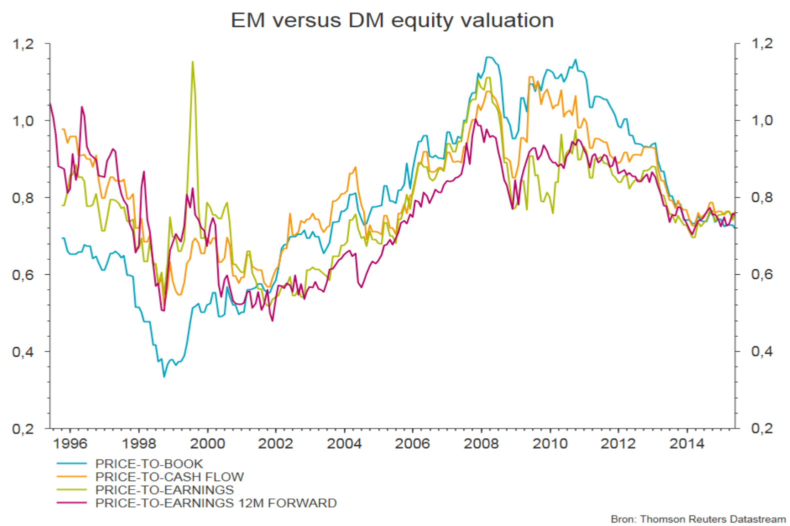
Equities: Emerging vs Developed (II)

Equities

Low commodity prices remain an important risk



Valuation of emerging markets is attractive



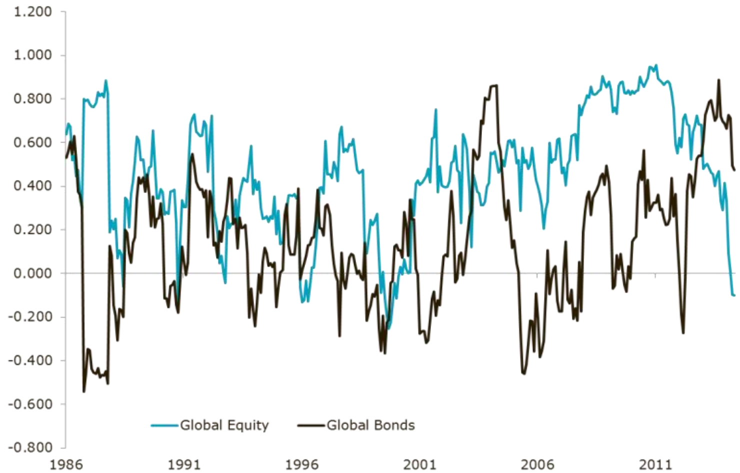
- The trade-weighted US dollar, sluggish world trade, low commodity prices and the slowdown in China all pose challenges for relative EM performance. Recent dollar weakening has had benign effects on emerging markets, which are YTD among the top performing assets in euro terms. However, with data from the US economy expected to improve, this positive effect will fade again. Although the first rate hike by the Fed will be followed by a moderate rate hike path, it could have a noticeable impact on dollar leveraged EM. Although buffers have been strengthened, inflation figures have recently surprised on the upside which limits the potential for central banks to counteract the effect of a stronger dollar.

- Emerging market valuations remain attractive especially compared to recent years. But we think they are cheap for a reason – because the fundamental outlook is not all that impressive, given the aforementioned challenges. And in China's case equities are actually not that cheap anymore after the recent rally.

- We are neutral on emerging markets. The macro outlook remains subdued, although valuations are attractive in a world with stretched valuations elsewhere.

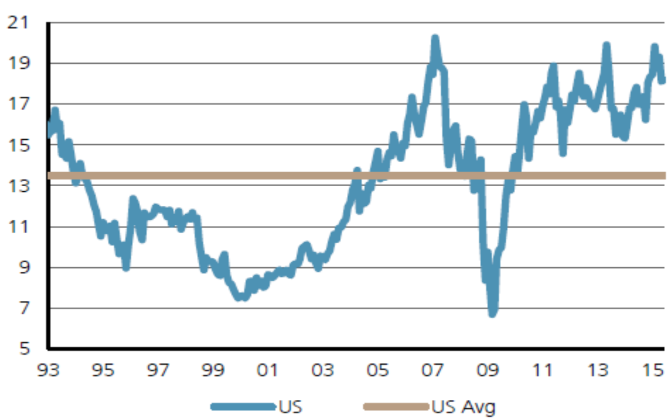
Real estate

Long term rolling correlation of real estate with equities and bonds



Source: Bloomberg, Robeco

Valuation of US real estate compared to own history



Source: Worldscope, I/B/E/S, DataStream, UBS estimates, as of 29 May 2015.

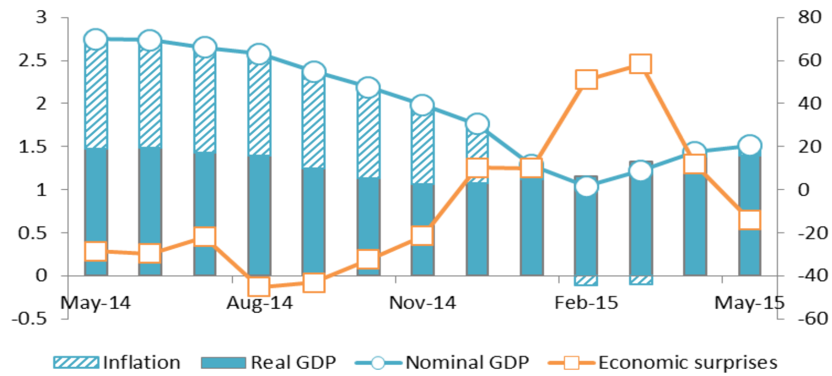
- The real estate environment has deteriorated a little. The solid outperformance compared to the equity asset class at the end of March, had switched to an underperformance of about 2.5% by the end of May. However, with an absolute performance of 11% (measured in EUR), you can't be too negative. The question is whether it is fair to compare real estate with equities, as the correlation between both asset classes has gradually come down and is now slightly below zero.

- In the last few months, the correlation with interest rates has also lessened, but the influence of the US Treasury rate is still significant. US Treasuries have moved slightly higher, which has had a negative effect on real estate performance. In the longer term, a rise in interest rates caused by positive economic growth (what we expect for the US) is also good news for real estate, as rents will rise.

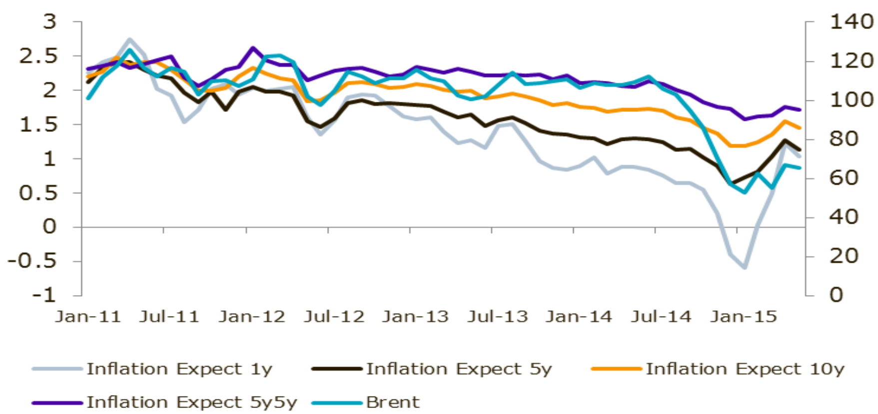
- US real estate valuations are still stretched, but the same is true in Japan, where the BoJ is still active in the REIT market. We're now neutral on real estate, but if there are signs that interest rates are definitely moving upwards, we'll shift to an underweight for real estate.

AAA Bonds (I)

While the consensus keeps upgrading expectations economic surprises seems to have peaked



Inflation expectations seems to be tracking Brent quite closely

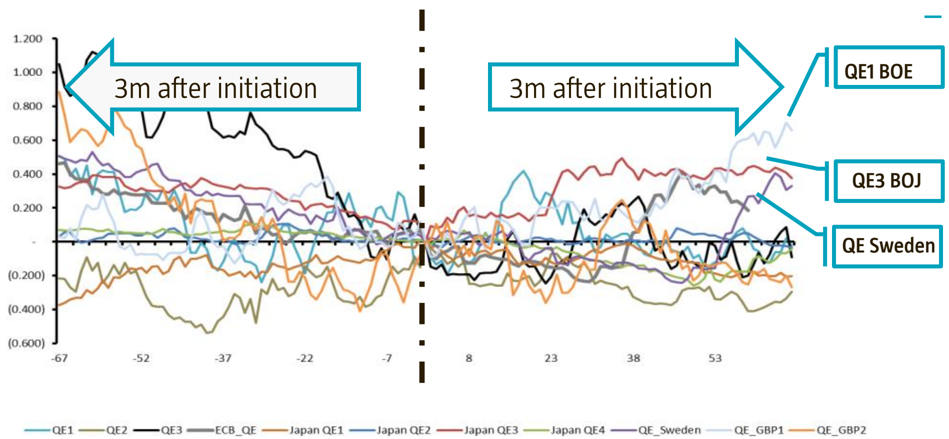


- After a massive upward move, we are slowly starting to see a little stabilization in rates and even some retracement. This raises the question of whether this is just a temporary break in the rise and an opportunity to reestablish long bond positions at attractive levels. Unfortunately its an easier question to ask than answer. Since the beginning of the year our preference has been skewed towards owning bonds. The idea was that uneconomical buying by the ECB would enable European bonds to deviate from fundamentals. We were quite aware that this would be a temporary phenomenon but expected it to last at least through 2015.

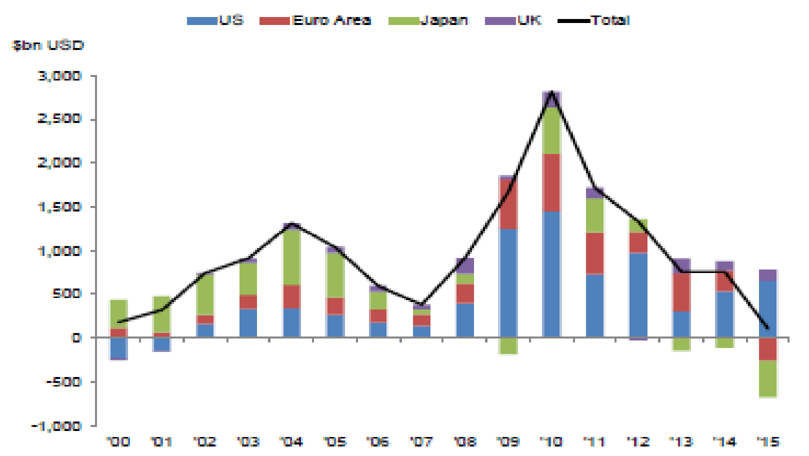
- The economic performance of the Eurozone over the past few months has been quite strong. This was first reflected in positive surprises in terms of figures and subsequently followed by back to back upgrades of the consensus economic outlook. Initially inflation expectations crept lower but these improved considerably when oil prices started to regain positive momentum. We should however not forget that the improvement in the European growth outlook came on the back of extremely favorable conditions – abundant liquidity, cheap currency, low rates and low oil prices. At least two of these elements are becoming less supportive in the current market situation. So for now, we are sticking to our growth expectations of 1.75% for the Eurozone as a whole, but it is clear that there is more downside than upside risk to his scenario.

AAA Bonds(II)

A brief history of the impact of QE on rates



Historical G4 supply, Net of Central Bank Buying



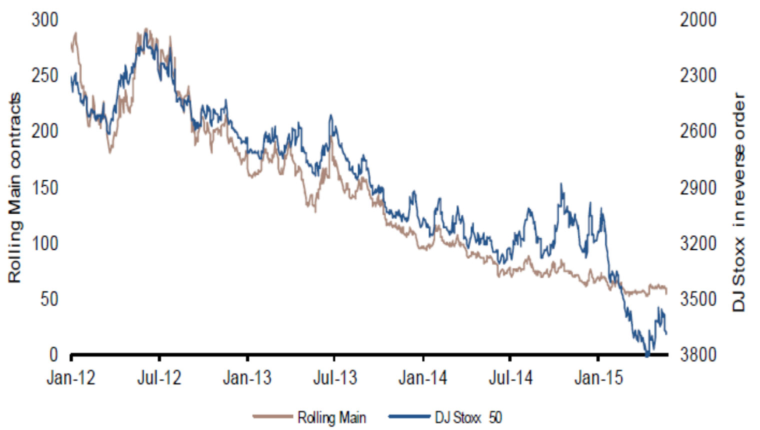
Source: FED, BoJ, BoE, ECB, Nomura

- Given that we still think that the ECB's buying program will determine the direction of rates in the coming months , its makes sense to look at previous asset purchase programs (implemented over the past seven years). What is very clear is that with the exception of one instance (first BoJ program) rates drop in anticipation of the purchases. So the drop in German yields prior to the ECB program was nothing special, even the size wasn't excessive. What is interesting is what happened three months into the program. To our surprise, most of the time, rates were either lower than when the program started or hovering around the levels they were at when it was implemented. So although we still have a couple days to go before we reach the three- month anniversary of the ECB's QE program, the sharp rise in the German 10-year yield looks a bit strange compared to previous programs. Given that the QE program of the ECB is of decent size and conducted against a backdrop of narrowing and smaller fiscal deficits in the Eurozone , we think that there remains a compelling case for rates to drift lower due to the demand supply mismatch, therefore enabling European bonds to deviate from fundamentals.

- For the moment we are not willing to fight the positive momentum for rates and prefer to remain neutral. We continue to look for a favorable entry level to move back to an overweight position.

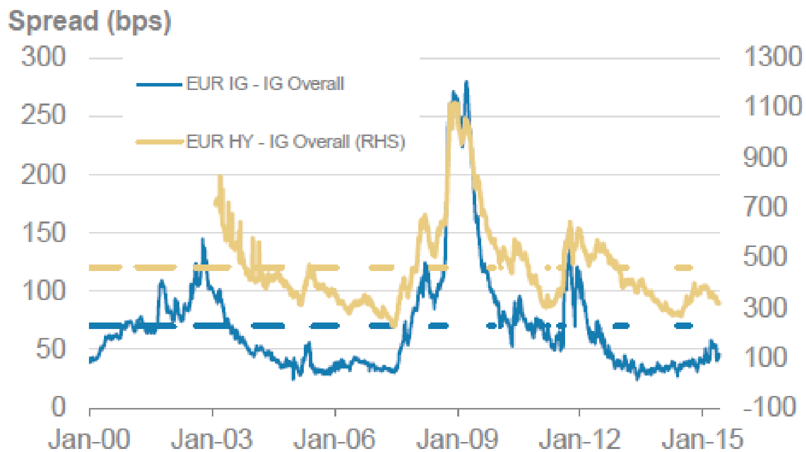
Investment Grade Credits (I)

European credit stable compared to equity in 2015



Source: Bloomberg, SG Cross Asset Research/Credit

Spread of EUR Investment Grade against own history and High Yield



Source: Morgan Stanley Research, Markit

- The yield on European Investment Grade credit was up eight bps at the end of the month from 1.02% on 1 May. The yields on credits didn't move that much compared to those on government bonds, which were much more volatile last month. With a net rise in the government bond rates, credit spreads narrowed by 16 bps. The Greek saga has had an important impact on this. Activity in the credit markets remains low, with credit investors waiting to see what the outcome of the negotiations will be.

- Compared to European equity markets, movements in European credits have been pretty stable, as can be seen in the top graph. The equity index (note the reverse axis) went down and then rose sharply, but the credit market did more or less nothing. New issues from the US (so-called reverse Yankees) have put some pressure on the secondary market, as investors sold existing holdings to make room for new issues.

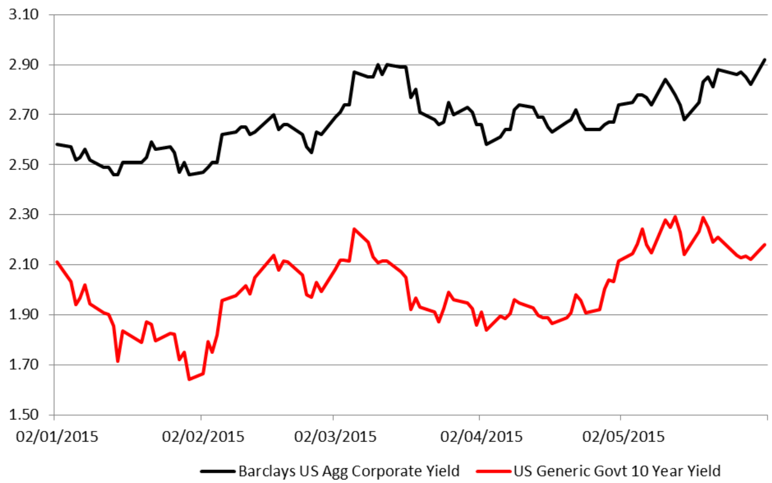
- In the corporate space, we still prefer high yield bonds over credits. The yield on European credits is low and below average. Although economic activity there is picking up, there are also a couple of risk factors like Greece which could impact credit performance. We maintain our underweight position in European credits.

Fixed Income

ROBECO

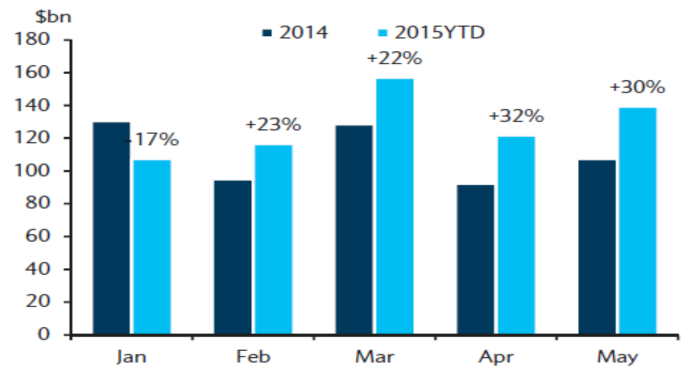
Investment Grade Credits (II)

US credit yield and US Treasury



Credit supply in 2015 compared to 2014

FIGURE 1
2014 versus 2015 Year-to-Date Supply



Source: Barclays Research

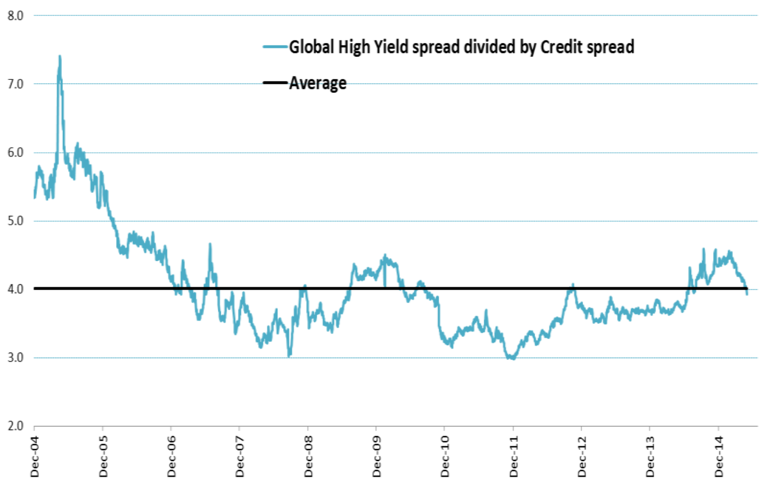
- US credit yields are still trending upwards. In May, they went up from 2.62% to 2.82%, which implicates a further – although very small – widening of the spread, which was just above 1.20% on the last day of the month.

- In the US market, supply is one of the key drivers of performance in the investment grade market. In 2015, the supply of credit has been at a high level, much higher than last year. USD 650 billion has been issued so far this year, a level that was only reached at the end of June in 2014. Despite the enormous flow, spreads remained relatively flat, suggesting a technical tailwind with the pace of supply expected to slow down in the second half of the year. The quality of the new issuance is lower than it was, with more BBB issues than ever. European credit investing in the US is also still at a high level, as US yields are attractive for European investors, helped by the ECB and the exchange rate.

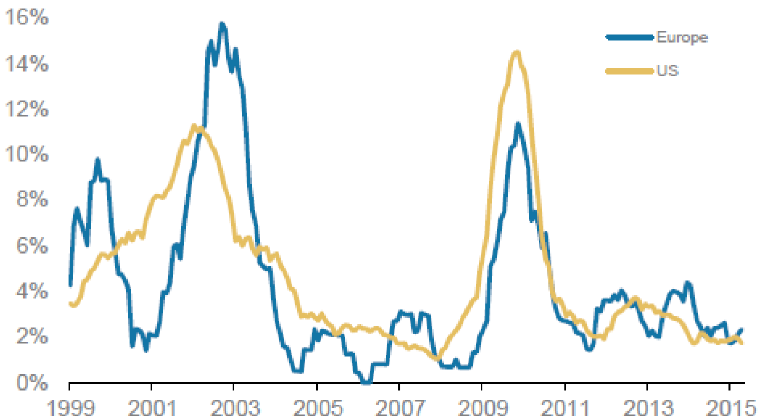
- But, all in all, from a European perspective, the current credit environment in the US is supportive, despite a possible rate hike later this year. Bearing the search-for-yield mantra in mind, investors looking for yield could consider US credits as an alternative.

High Yield (I)

High Yield spread



Trailing 12 month High Yield default rate



Source: Morgan Stanley Research, Moody's

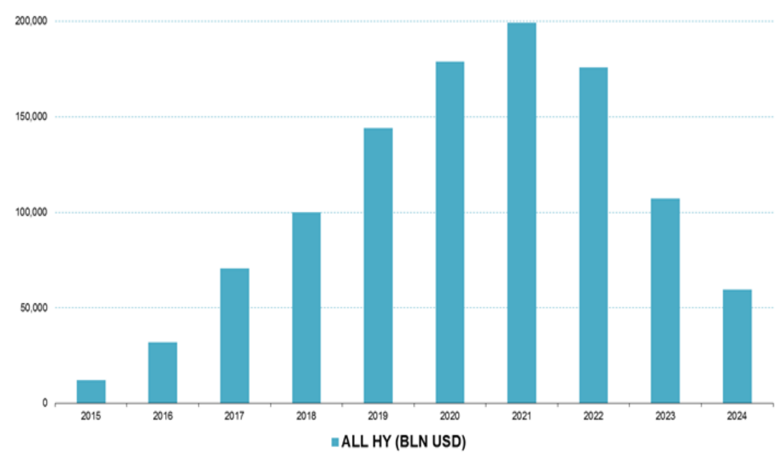
- High Yield bonds was among the best performing fixed income asset-class segments in May, and the only one that realized a very small positive return. Spreads have tightened by about 10 basis points compared to the levels at the end of April, and by 70 bps since the start of the year. The yield on global high yield bonds is now just below 6.0%, with a spread of 4.6% over government bonds and 4.0% over credits, the latter is close to the long term average.

- High yield companies have benefited from reasonable economic circumstances. US GDP growth has been disappointing, but there are signs of recovery in Q2. In Europe, economic data surprised on the upside as a lower euro and lower oil prices start to take effect. Historically periods of economic growth that are not too fast or too slow have benefitted high yield bonds. In addition, in the 'search for yield' high yield is one of the last asset classes to deliver some extra yield.

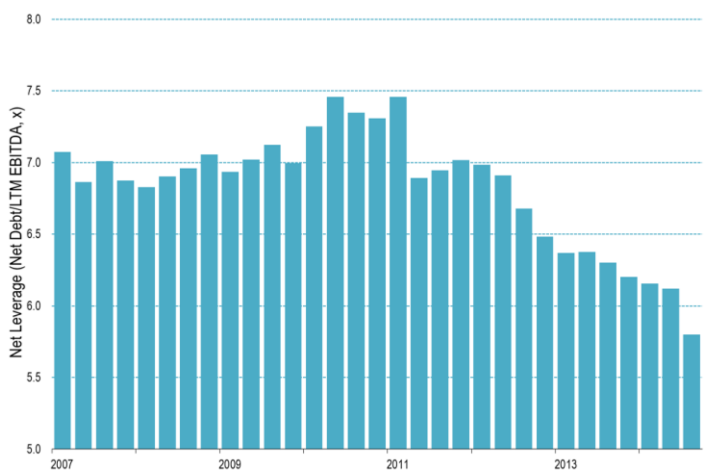
- The economic outlook implies that default rates will continue to stay low for a while longer. The US default rate is expected to bottom out this quarter at somewhere around 1%, which is low by historical standards. Defaults are then expected to rise a little, but to stay below long-term averages. Debt refinancing is going smoothly, due to the enormous appetite for higher yielding bonds.

High Yield (II)

Maturity wall



Interest costs are falling



- The graph to the left shows that for the next two years or so the amount of debt that has to be refinanced is relatively small and is unlikely to trigger many defaults. That's also a positive factor for high yield bonds.

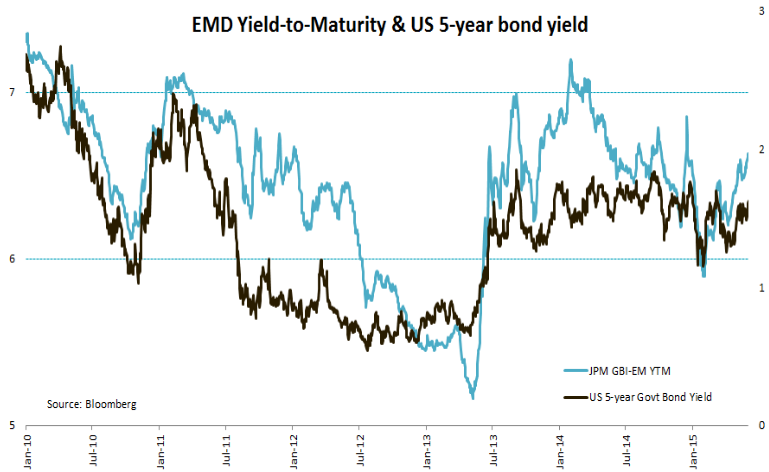
- Oil prices remain an important driver for high yield bonds, especially in the US. WTI prices have stabilized in the last weeks, after a rebound from Mid-March lows, which resulted in a substantial spread tightening for US high yield debt companies. We do not expect spreads to widen as much as in March again, but some volatility in the oil price may be around for a while.

- A first rate hike by the Fed isn't necessarily bad news for high yield bonds. Hiking cycles have traditionally been accompanied by better economic prospects. Although the leverage ratio of high yield companies has steadily increased over the last couple of years, it won't cause balance sheet issues. Interest costs have actually gone down as bond yields have fallen sharply, and we don't expect them to go up rapidly anytime soon.

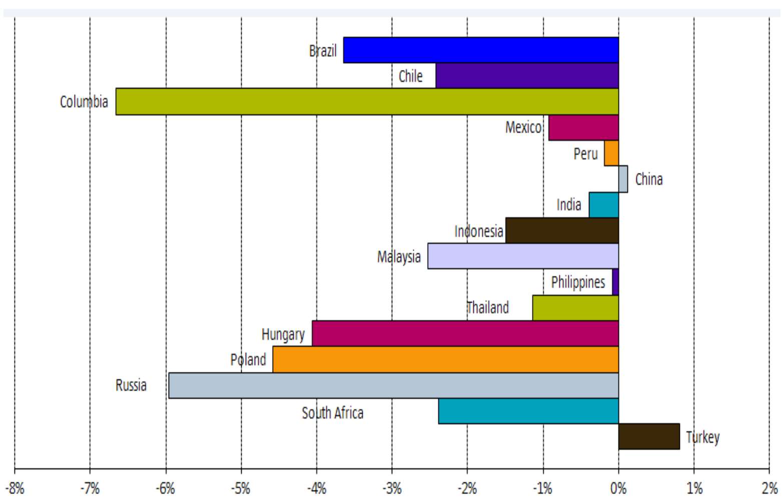
- We continue to be overweight high yield bonds. The asset class offers attractive valuations relative to government bonds, credits and cash.

Emerging Market Debt (I)

Yield to Maturity



EM FX showed broad underperformance versus dollar



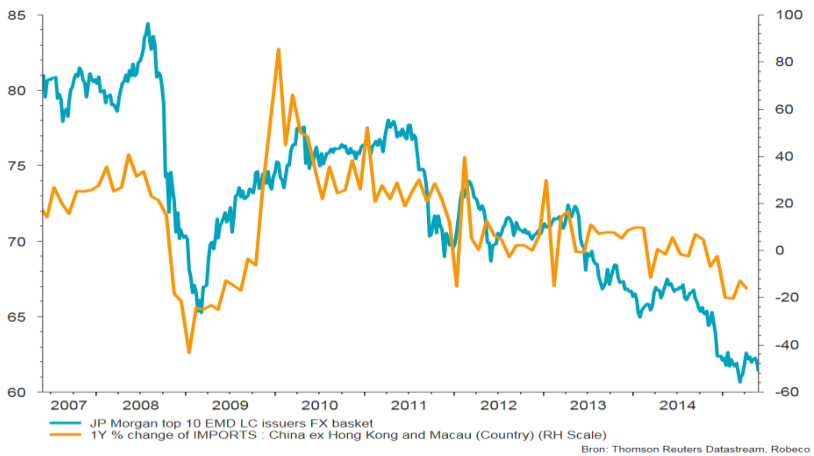
- Spreads on emerging market debt have barely moved since the end of last month and are now just above 500 basis points. However, since bond yields in the US have moved up significantly the yield to maturity has also increased, resulting in a negative return month for EMD. There are also negative returns on the currency component as the dollar appreciated against emerging currencies. The return in local currency terms last month amounted to minus 2.6%.

- Although US macro economic data disappointed, the Fed signaled that it is still on course for the first rate hike in 2015. This stance ignited the dollar rally again last month and has brought more volatility to emerging market currency markets, notably for the Russian ruble and Brazilian real.

- The currency component in the return composition therefore remains firmly in the picture. Although emerging market currencies have been under pressure for a while now, there is still reason to remain cautious given that we expect the oil rally to lose momentum, a slowdown in demand from China and subdued world trade. In addition, the strong dollar will be a negative factor for emerging countries with a high percentage of dollar-denominated external debt (like Brazil).

Emerging Market Debt (II)

EM currencies depreciated along with lower imports from China



Yield EMD vs High Yield

- Nevertheless, the current account deficits of commodity-exporting countries improved last year and could stabilize as commodity prices rebound, while currency depreciation will start to improve competitiveness. The overall activity in the largest EMD issuing countries is showing a slight uptick, pointing to increasing expansion, but is still subdued compared to that in the developed markets and the broader emerging market universe. Looking at the bear flattened yield curves of Russia and Brazil, a strong economic rebound is not likely in the near term.

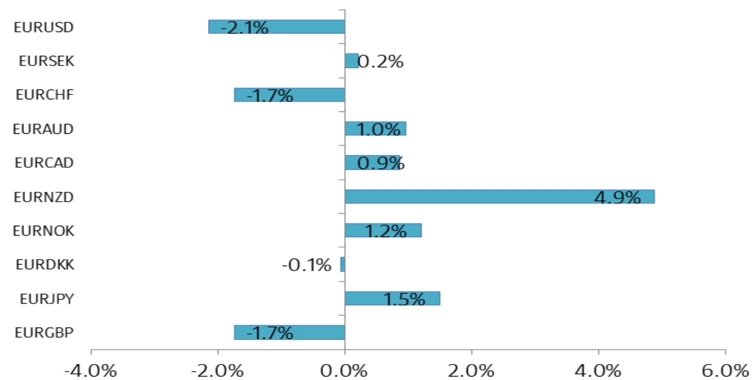
- On average, emerging countries are in easing mode, with Brazil being the strong exception. Brazil is getting its inflation under control, but the tightening cycle has not ended. Inflation surprised on the upside last month in emerging markets, and this could squeeze the remaining room for monetary easing.

- From a valuation point of view, emerging debt looks more attractive than it did last month as yields have widened. The yield to maturity on EMD is now firmly above that on high yield bonds. EMD is now the highest yielding asset within the fixed income space. However, we remain neutral on EMD for now. First, the run up in yields in developed markets has not yet lost momentum and has been fuelled by Draghi's pronouncements on volatility. Second, the negative currency return will likely diminish the attractive carry.

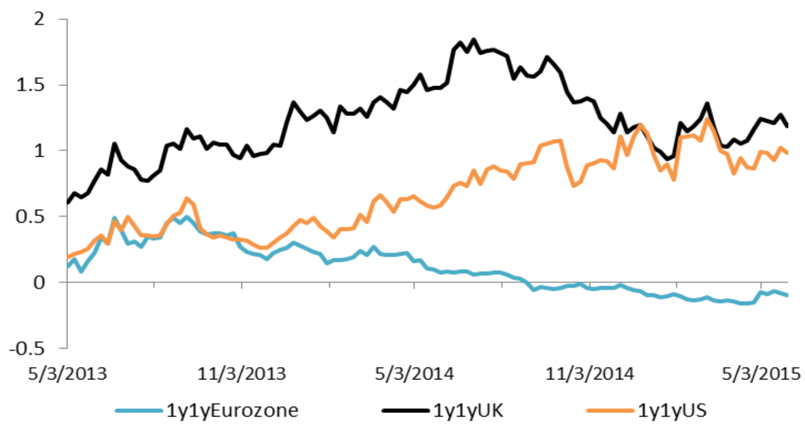
Fixed Income

FX (I)

No strong theme in euro crosses this month



Markets are willing to accept higher rates in the UK and US

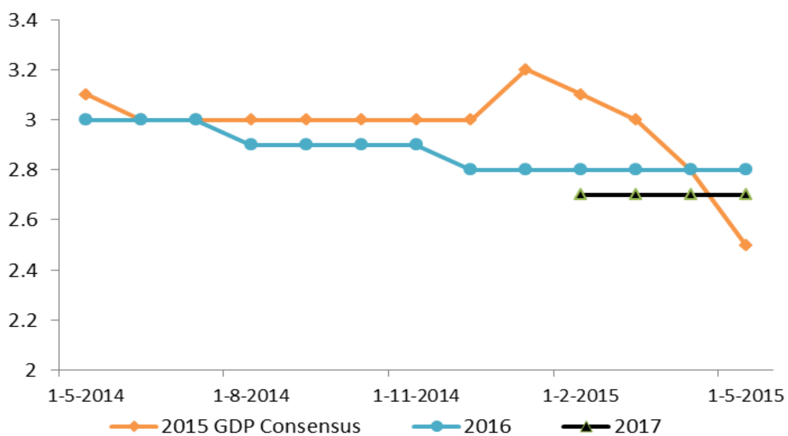


- When we look at the May performance of the euro crosses, it is difficult to find a common theme. Still we can make a couple of observations. The euro gained ground against currencies that are somewhat related to commodities. While – with the exception of the yen – currencies of most countries where the central bank is still engaged in some sort of easing managed to hold their ground. The performance of the euro against the USD, GBP and CHF is interesting. When grouped together, the performance seems to indicate some sort of safe haven flows. Given that developments in Greece have continued to make headlines over the past month this is plausible. On the other hand in the case of the GBP and USD, the markets are more willing to accept that their central banks are closer to starting a normalization of monetary policy.

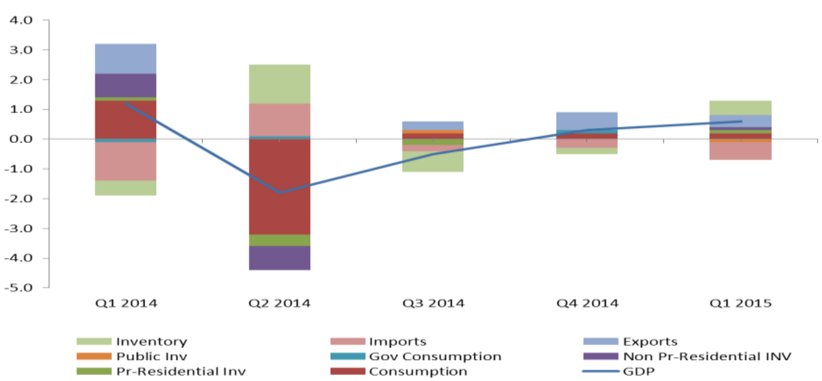
- Our line of thinking hasn't really changed since the previous month. With the continuous confirmation by the ECB that the QE program will be fully executed, we continue to think the ECB policy for the coming couple of months is set. This is comforting as it makes us more willing to look beyond the better than expected economic numbers published over the past period. The continued balance sheet expectations of the ECB will therefore keep pressure on the euro.

FX (II)

Expectations for 2015 US growth significantly lower



Big chunk of Q1 Japanese growth came from inventory build



- In the US however we are increasingly scrutinizing the data. The takeaway for the first half of the year is one of disappointment. We must admit that there are quite a few inconsistences in the data. This becomes visible when high frequency data points like PMI's are compared to the horrible GDP print of the first quarter. The labor market is also continuing to heal which should be very positive for the US economy. Just like us, the Fed doesn't seemed to have given up on its plans to normalize policy this year. In her last public speech, Yellen explicitly mentioned that a rate hike this year can't be ruled out. Now that the market has lowered its expectations for the US economy, the threshold for positive surprises is low.

- We think the BoJ's growth projections are too optimistic and will not be achieved. Ultimately this will trigger a new round of quantitative easing. However, we do think that the time frame will need to be moved back and so it is not expected before the third quarter this year.

- The bottoming out in terms of US economic surprises has strengthened our belief that the US should start to outperform again. We have therefore increased our long position in the dollar, versus both the yen and the euro.

Important information

This document has been carefully prepared by Robeco Institutional Asset Management B.V. (Robeco).

It is intended to provide the reader with information on Robeco's specific capabilities, but does not constitute a recommendation to buy or sell certain securities or investment products.

Any investment is always subject to risk. Investment decisions should therefore only be based on the relevant prospectus and on thorough financial, fiscal and legal advice.

The information contained in this document is solely intended for professional investors under the Dutch Act on the Financial Supervision (*Wet financieel toezicht*) or persons who are authorized to receive such information under any other applicable laws.

The content of this document is based upon sources of information believed to be reliable, but no warranty or declaration, either explicit or implicit, is given as to their accuracy or completeness.

This document is not intended for distribution to or use by any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation.

The information contained in this publication is not intended for users from other countries, such as US citizens and residents, where the offering of foreign financial services is not permitted, or where Robeco's services are not available.

Robeco Institutional Asset Management B.V. (trade register number: 24123167) has a license of the Netherlands Authority for the Financial Markets in Amsterdam.