ROBECO
The Investment Engineers

Fundamental Equities Outlook Q1 2022

Further 'gamification', or back to fundamental investing?

- Monetary environment remains market-supportive going into 2022
- Earnings engine in lower gear, but still humming in most countries
- We prefer developed over emerging markets

First Futu, then WeBull, and now Longbridge. Taking the subway home in the evening, I have been amazed by the loud and aggressive campaigns for online brokers in Hong Kong's Central Station. This in a year where the local Hang Seng Index was actually one of the worst-performing markets in the world (down 12%). These brokers also offer their services in the US market though, and on Wall Street it was quite smooth sailing in 2021. Stocks closed almost 30% higher after a more than 20% return in 2020. The social element ("chat with your investor friends") plays an important role in the campaigns. Investing is fun, lucrative, and so easy!!!

Fundamental Equities Outlook Q1 2022
For professional investors
January 2022

Robeco Fundamental Equity Team

It is great to see so many new players with a newfound love for our favorite asset class equity! Robinhood encouraged a new group of equity investors when commissions were cut to zero. The patient and thoughtful long-term equity investors that trade infrequently have been joined by inexperienced traders looking for instant gratification. On your phone, it has become so simple to buy a stock through the push of a button. For many, a stock is not more than a chart that is mostly going up, recommended by an influencer. If it disappoints, you can always get out the next day, at zero cost! The new traders have money and good ideas but are also likely to have weak hands when the going gets tough.

The equity game has also become a winner-takes-all game, with the US and ETFs on the winning side. Out of the nearly USD 1 trillion that was put to work in equity funds in 2021, more than 70% went into US equity. And, indeed, US companies do the best job in managing their shareholders' equity, while in most other countries, other stakeholders need to be managed too. American confidence in equity for the long run is as high as is Chinese trust in buying property. And even they may join the equity game after Evergrande has put an end to home price increases in China. Asian investors also want to put their money into the US winners that now go under the acronym -well-known to aging fans of the Muppet Show- MANA-MANA: (Microsoft, Apple, Nvidia, Alphabet, Meta, Amazon, Netflix, and Adobe). With a touch of Tesla to top it off.

ETFs have mopped up an amazing 93% of global equity fund flows in 2021. You buy an ETF as a basket of stocks with a common driver that sounds appealing, but you don't know exactly what you are buying, nor at what multiple. Let us make the self-serving case here for actively managed funds where Robeco portfolio managers will continue to do the fundamental legwork, and make sure that the stocks in our baskets are still attractively valued.

Many investors 'play' the market today with money being plentiful. This money has been provided by the printing presses of the world's major central banks. At the same time, governments no longer seem to be bound by fiscal deficits, as they have spent lavishly during the Covid-19 pandemic, without any punishment from the 'bond vigilantes'. Most likely, a chunk of that 'emergency support' landed in equity markets. The table below illustrates how much the global money supply has grown since the end of 2019.

Table 1 | Money supply (M2) in local currency trillions

	End 2019	Latest (November 2021)	Money growth	M2 as % of GDP
US	USD 15.3	USD 21.4	+40%	102%
Eurozone	EUR 12.4	EUR 14.6	+18%	108%
China	CNY 199	CNY 236	+19%	252%
Japan	JPY 1,041	JPY 1,176	+13%	206%

Source: Bloomberg.

No wonder that some folks now consider the world's main currencies to be Monopoly or Mickey Mouse money. There is so much of it! Quite a few of these sceptics have looked into crypto markets to find protection. Supply here is capped by design for each currency, but there is no limit to the number of cryptocurrencies that could eventually be created. Crypto clearly went mainstream in 2021. As I watched sports events such as European soccer or Formula One racing, the crypto exchange advertisements could not be overlooked. The overall market cap of these currencies is no longer insignificant – close to USD 2.3 trillion – but still less than the market cap of Apple, the world's biggest stock, at USD 2.9 trillion.

More gamification can be found in the relatively young market for special purpose acquisition companies, or SPACs, as many of these equity deals are now done through celebrity endorsement. Buy a SPAC from your favorite sports star, music idol, or from 'real estate icon' Donald Trump. This way the rich and famous can literally monetize their fan clubs.

And on top of that, we now have the larger-than-life metaverse. Is it a game, is it for real? Investors are wrestling with the implications and the potential 'winners' of this trend. It must be important since Facebook even changed its name to Meta. It is hard to envisage a future where we all have a second life in a parallel online economy, but it is worth to revisit Spielberg's 2018 movie Ready Player One, or to simply speak to teenagers. More games, that's for sure!

In the real economy, central banks are aware they may have overdone their stimulus with inflation popping up in many areas. We will thus see more tightening announcements in the first quarter, as they try to normalize policies. The US Federal Reserve (Fed) is now expected to make its first hike in March 2022, with a few more planned for later in the year. This has historically been a more difficult environment for emerging equity markets to perform. Recent US dollar strength contributes to our outlook being more muted here. For developed markets, our outlook remains bright. As the strong keep getting stronger, earnings expectations are still likely to be outgunned.

In both developed and emerging markets, the outlook for corporate earnings remains supportive. 2021 was a bumper year, but we expect decent growth for 2022 as well. Here is another winner-takes-all element, as the large, listed companies are generally much less affected by the pandemic than the smaller companies, and particularly by those in the service sector.

What will 2022 look like? More fun and games for those in the market, or a return to old-fashioned investing? Well, we will definitely start with more games, as the 24th Winter Olympics will be held in Beijing in February. Investors wonder whether Chinese stocks can come back after offshore listings were hard hit by regulation and the burgeoning property sector was heavily curtailed in 2021. A remarkable USD 50 billion of money has continued to flow into this underperforming market, which is a rare sight in momentum-driven markets. We remain fairly cautious for now, but the one country with decent real rates at least has room to support the economy via rate cuts.

In the end, it is likely that under a tightening monetary environment, fundamental analysis will outlast gamified meme stocks. The first quarter may still see the tail end of the 'rally of everything', but the likelihood of a more discerning market environment is increasing in 2022.

Please read through the detailed views from our fundamental investors in the following sections.

Arnout van Rijn
CIO Asia-Pacific Equities

Table of Contents

Developed Markets Equities | A great three-year run with more resilience on the horizon

- Fed hikes historically don't signal a bull market's demise
- Robust consumer demand supports positive outlook
- Record buybacks in the US, retail investors keep buying the dips
- Earnings growth still strong, though Omicron poses risks

Five-factor summary

Factors	Score
Macro	=
Earnings	+
Valuation	=
Technical	+
Sentiment	=
Total	+

Source: Robeco Global Equities Team.

We maintain a long-term positive outlook for developed market equities. In the last quarter of 2021, we lowered our macro factor from positive to neutral, as the US Fed announced a quicker tapering of its bond purchases. Moreover, the central bank's Summary of Economic Projections indicates even more rate hikes for 2023 and 2024 in addition to the three forecasted in 2022.

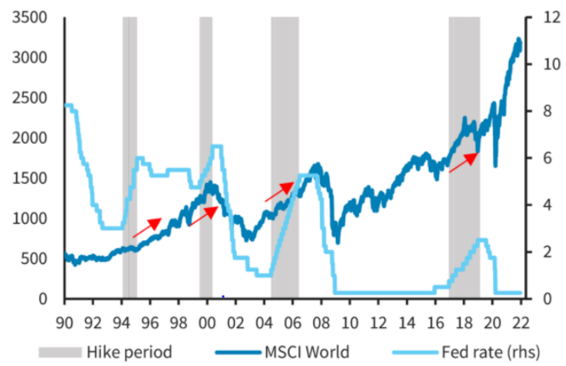
We are watching for signs of a potential monetary policy mistake – which we don't see yet – and we have some concerns about inflation risk. Record inflation (6.9% core rate in the US) could potentially give rise to future financial stresses.

However, global liquidity is still expansive, and the world's largest central banks remain accommodative overall, even as some of them started to hike rates, with the Bank of England (BoE) being the first among the world's major central banks, followed by the Norwegian Central Bank, to initiate rate increases before the 2021 year-end. Other central banks may also have to rethink their policy after continued strong inflation readings. Mid-December, the European Central Bank (ECB) announced it too would phase out an emergency bond-buying program, while ramping up other stimulus measures to keep the 19-nation Eurozone's recovery on track.

These measures, along with the Fed's policy tightening pivot, mean that unclear stances have now been replaced with clear guidance. Uncertainty about the Fed and other central banks' tightening intentions has been replaced with hopes that hikes will help bring down inflation without derailing growth. Rate hikes and the pace of growth are now key to deciphering future market direction.

We note that across past economic cycles, rate hikes did not necessarily terminate bull markets. In the US, for example, there were four major policy tightening cycles over the last 30 years, and all but one of them saw equities continuing to rally over the medium term.

Figure 1 | Past Fed hiking cycles did not usually end bull markets. In fact, they remained on a steady resilient run



Source: Bloomberg, DataStream, Barclays Research, Robeco. December 2021.

We maintain our neutral macro factor, as consensus GDP forecasts for the developed world (4.4%) as a whole and its different regions (US: 3.9%, Eurozone: 4.2%, and Japan: 2.9%) continue to support a robust economic outlook. Consumer strength, especially in the US and Europe, is a key driver of our positive outlook. This is fueled partly by a USD 2.5 trillion cash hoard on US households' balance sheets. For example, in the week before Christmas, one of the world's largest sports apparel companies announced ever more record-setting sales results, highlighting the robust consumer demand which is a key feature of the current outlook. The announcement was based on pre-December retail sales, while holiday sales in December also appear robust.

Economic growth and earnings growth will likely moderate in 2022, after a post-pandemic recovery. But we remain positive on earnings. Inflation (Figure 7) will also cause concern after a record-high services ISM report in the US and the fastest US nominal GDP growth since the 1950s, as well as increasingly hawkish comments from Fed officials. Going forward, inflation surprises and central bank policy will become more important than valuations and growth, in our view.

Meanwhile, the spread of the Omicron variant of the Covid-19 virus has pushed daily infection rates above those that were triggered by the Delta variant over the summer in the US, and may do the same elsewhere. We are also seeing some early signs of a negative impact on holiday season services. The December flash services PMI dropped to a 10-

month low of 48.4 after a 52.7 reading for the previous month. In Germany and the UK, services PMIs fell sharply too. Omicron may cause further disruption to goods and services from isolating shoppers and workers, including air travel.

Continued strength in global earnings

We shared concerns earlier this year that earnings may peak in 2021 after a very strong post-pandemic rebound. However, all signs during the final months of the year suggest that earnings still have momentum, although not the record-setting surge of 2021, which produced earnings in excess of 45% and near 60% in the US and Europe respectively. We see strength in 2022, even with the difficult comparison to record-high 2021 earnings. Consensus expects companies of the S&P 500 Index to report earnings growth in 2022 of around 9% to 10% in the US and around 6% to 7% in Europe.

Figure 2 | 2022 World Earnings growth expectations are resilient and above pre-pandemic levels

Source: IBES, MSCI, Robeco, December 2021.

In the US, ten out of eleven sectors are projected to achieve year-on-year earnings growth in 2022. The one sector not expected to see earnings rise, Financials, benefited from special reserve releases in 2021 that boosted earnings. But the sector is already seeing analyst upgrades coming around the year-end, on the back of the change in Fed policy which supports banks' earnings. We are therefore not concerned and think that this might actually be an opportunity to find value in the sector. We expect the large bank sector to outperform as the Fed begins rate hikes, despite the less encouraging earnings forecasts.

Figure 3 | Earnings revisions in DM remain robust

Source: IBES, MSCI, Robeco, December 2021.

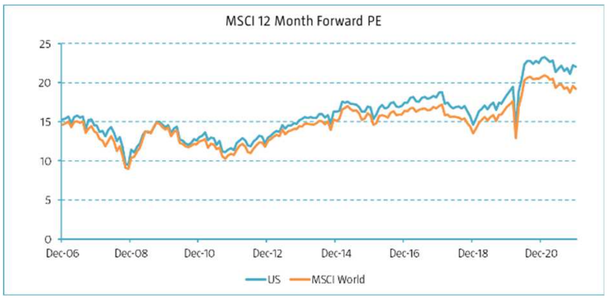
There are some risks to these upgrades, notably from the rise in raw materials prices, coupled with continued supply chain disruptions. Valuation multiples have in fact retreated modestly, which is positive, as earnings growth has been outpacing price appreciation in recent months. The final 2021 quarterly reporting season in January, particularly management comments on company outlooks, will be key catalysts to watch for any signs of earnings slowdown ahead in 2022.

Valuation tailwind boosted by the strength of the post-pandemic recovery

A key highlight of 2021 was the strength of the economic recovery, which combined with both easy monetary policy and record amount of share repurchases, strongly boosted quarterly earnings. This environment supported stock valuations. Global price-earnings (P/E) multiples are elevated. For instance, the S&P 500 Index's forward P/E is now close to 22 times, partly due to blowout (double-digit growth) earnings over the past six quarters. Year-on-year earnings growth for companies of the S&P 500 Index and most European indices has exceeded 50% and 60% respectively in 2021.

Global real GDP growth of 6.0% seen in 2021 was the highest since 1973. It brought economic activity above pre-Covid-19 recession levels. Although current stock market valuations remain above their five and ten-year averages, they have compressed this year on the back of strong earnings, and 2022 looks better than 2021 on a P/E basis alone. However, history tells us that high P/Es tend to contract as yields rise, although some sectors, including Financials, Energy, and Industrials, tend to rise with rising yields. We therefore remain neutral on valuations.

Figure 4 | Absolute valuations in the US and developed markets



Source: IBES, MSCI, Robeco, December 2021.

As noted, developed equity valuations are high across the world (Figure 4), at least from an historical perspective, but neutral given the rate environment we are in. We see that the MSCI World Index is trading at close to 19.2 times 12-month forward earnings. Meanwhile, the US market, which is clearly more technology and services-oriented, is trading closer to 22.0 times forward earnings. This reflects the current inflationary environment, as well as the record stimulus pumped into the global economy during the pandemic. Money keeps flowing into equities, and stocks remain relatively attractive compared to credits and government bonds, as rates are expected to rise from historic low levels.

A corporate signal that shares are fairly priced

Corporate management teams confirm that shares are fairly priced. This is evidenced by US companies spending a record amount on share buybacks for the third quarter of 2021, led by the Information Technology sector which purchased USD 66 billion shares in the quarter. This trend appeared steady in the last quarter.

The buybacks along with low corporate inventories support the valuation premium at this time, but as the early innings of the Covid-induced recession and recovery move ahead into the later innings, we may see valuations continue to contract, which also supports a move towards more high-quality sectors and stocks. We believe positioning ought to remain toward good fundamentals, particularly highly profitable companies with strong cashflows.

Global small caps pessimism is stretched versus large caps

Technical analysis is still supportive of developed markets overall. We rate the technical factor as being positive. On technical indicators alone, the outlook for developed markets remains more favorable than for emerging ones. Despite the S&P 500 Index reaching 70 new highs in 2021, market sentiment indicators are not excessively bullish nor bearish overall as we begin the new year. Small caps globally have underperformed and appear poised to help support the markets in 2022. In December, the sentiment indicators we monitor suggests a mid-single digit return for the MSCI World Index in 2022.

Around the world, outside of the US, we favor European equities relative to Japan

The outlook for Japan does not appear exciting. We see more favorable opportunities in the US and Europe relative to Japan. Since 2000, historical analysis shows that the Eurozone outperforms Japan when US bond yields rise, although Japanese equities continue to trade relatively cheaply on valuation metrics (Figure 5) and corporations have improved their profitability over the last few years through capital discipline, efficiency gains and more shareholder friendly policies.

Overall, Japanese equities have improved their profitability as measured by return on equity over the past 20 years. So, we like this trend. However, we don't see a catalyst for Japan to outperform the US and Europe in 2022. We will continue to search for high-quality companies in Japan, as we watch for a turn in equity market performance where cumulative flows by domestic Japanese equities ended 2021 at a ten-year low.

Figure 5 | Japanese equities trade relative cheap relative to other markets

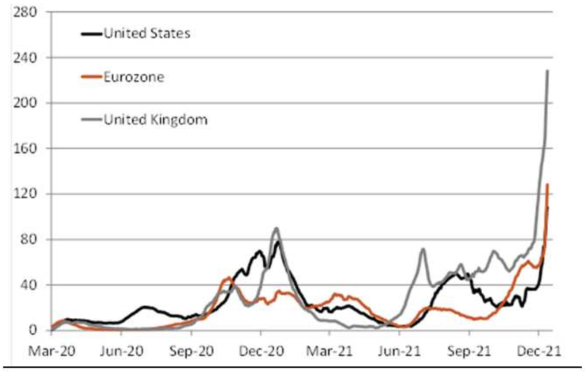
Source: IBES, MSCI, Robeco, December 2021.

Main risks to our outlook

The primary downside risk to our earnings and valuation outlook is Omicron. While we believe early data indicates that Omicron causes fewer medical complications and is less lethal than prior variants of the Covid-19 virus, we have to acknowledge it is the key risk as we start 2022. We are also monitoring the major surge in vaccinations across much of the developed markets (mostly through booster jabs).

The UK, Germany, France, and Austria are among countries that now give the jab to more than 1% of their population each day, which should ease the risk. However, some European countries along with some US states are tightening restrictions and this could constrict the supply chain, lower the GDP outlook, or dent consumer confidence.

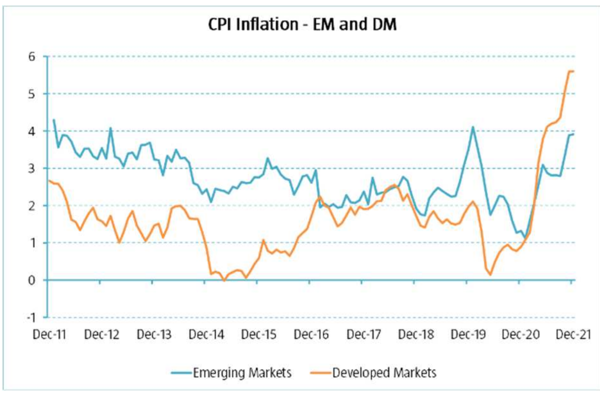
Figure 6 | Daily infections per 100,000 people – UK surge, US and Europe following



Source: Johns Hopkins University, Berenberg, December 2021.
Note: Recorded infections, seven-day rolling average.

Economic growth and earnings growth will likely moderate in 2022 after a post-pandemic recovery, but we remain positive. Inflation will also cause concern following a record-high services ISM report in the US and the fastest US nominal GDP growth since the 1950s, as well as increasingly hawkish comments from Fed officials. Going forward, inflation surprises and central bank policy will be more important than valuations and growth, in our view. Meanwhile, the spread of the Omicron variant of Covid-19 has pushed daily infection rates above of those fueled by the Delta variant over the summer in the US and may do the same elsewhere. We are also seeing some early signs of a negative impact of Covid on holiday season services, with December Flash services PMI dropping to 48.4, a 10-month low, down from 52.7 in the previous month. In Germany and the UK, services PMIs fell sharply too. Omicron may cause further disruption to goods and services from shoppers and workers forced to isolate, including its impact on air travel which was severely affected over the Christmas period.

Figure 7 | Inflation in emerging and developed markets



Source: IBES, MSCI, Robeco, December 2021.

Our short-term outlook for developed markets equities is now more cautious than it was in the first half of 2021, when the post-pandemic recovery was very strong. Aside from Omicron, inflation pressures highlighted in recent corporate results is the key indicator to monitor (Figure 7). Inflation data is still surprising on the high side. This causes a tug-of-war between high inflation and hawkish central banks (along with Omicron uncertainty) which may create a destabilizing environment. We continue to believe that most central banks are willing to let inflation overshoot their targets, as they do not want to harm the fragile economic recovery, amid a resurgence of the pandemic.

Implications for portfolio positioning

Over the last quarter, we have shifted from a slight underweight position in European equities to an overweight, and we remain modestly overweight to North America, in our Global Equity portfolios. We also maintain an underweight to the Asia-Pacific region and Japan. We focus the portfolios on what we view as high-quality sectors and stocks that we believe can perform well when inflation is higher than average. Inflation may decelerate this year, but we are positioning global equity portfolios to account for it, as cost pressures will remain above Covid-19 levels and higher than their long-term averages.

We continue to find what we view as high-quality companies in the sectors we prefer, such as Health Care, Technology and Materials. We continue to prefer these to the more bond-like sectors such as Utilities and Consumer Staples. During the past quarter, we continued to realize gains in some high-flying Information Technology companies and have added to the Financials sector. We remain on the lookout for companies with a good or improving sustainability profile that also have a good long-term track record of return on invested capital, and that have a decent valuation on free cash flow.

Emerging Markets Equities | The emerging world did a preemptive inflation strike

- Cautiousness mentioned in the previous quarter is still valid as Omicron joins the cluster of headwinds
- Key milestones of 2022 will be :
  - Inflation globally likely to prove transitory
  - Economic recovery in combination with tighter monetary policy potential catalysts for 'value' asset classes such as emerging equities

Five-factor summary

Factors	Score
Macro	=
Earnings	=
Valuation	+
Technical	-
Sentiment	=
Total	=

Source: Robeco Emerging Markets Team

We maintain our neutral stance on emerging markets, with we view as very attractive valuations on the one hand, and a less attractive technical profile on the other hand. The economic rebound of the last quarters has been translated into a strong earnings performance across markets. This substantial tailwind has now more or less worked its way through the companies' top and bottom lines.

Earnings revisions in emerging markets have become weaker than those in developed ones. The earnings revision ratio for emerging markets has recently softened, but is still above 1.0. We thus keep our neutral stance on earnings growth for emerging markets relative to their developed counterparts.

The only negative factor in our assessment is the technical factor. Emerging markets substantially lagged their developed counterparts over the past few months, which caused a further deterioration of their technical profile.

As the table above shows, the valuation factor remains positive, which became even more significant in the last quarter. The sentiment factor remains neutral, after unprecedented investment flows into emerging markets, totaling more than USD 150 billion since October 2020. We expect inflows to continue, but at a slower pace than in the previous quarters. The constructive sentiment should persist, since investors are increasingly looking for value propositions that will benefit from a reopening of the global economy.

Emerging markets face headwinds but are very well flagged

In the last quarterly, we mentioned the credit concerns around the Chinese property sector and its potential contagion to the broader economy as the main headwind for emerging markets. Although we have not seen a formal default of the property mogul Evergrande, this still overhangs financial markets. The upcoming tapering process in the US was another headwind we foresaw. It only got more attention over the last quarter, especially after the latest comments by the Federal Reserve's Chairman Jerome Powell boosted prospects of a faster-than-anticipated tapering.

With regards to the Covid-19 pandemic and its variants, we are now at the letter Omicron in the Greek alphabet. More will likely follow. Our base case scenario is that Omicron and future variants will be more infectious but less dangerous. This, in combination with larger vaccination rates and booster campaigns, should lead to reduced pressure on health care systems across countries. The need for additional lockdowns would then cease to exist during the course of 2022. That would mean one less headwind for markets.

The taper headwind could also fade away, but probably not until after two or three official US rate hikes from the Federal Reserve, from the second quarter onwards. Inflation is likely to decelerate from the elevated levels seen recently. It is still unclear whether this headwind will disappear also in the second half of 2022. Until the fourth quarter, it will most likely be a reality to keep in mind while constructing our portfolios.

The first two quarters of the year will likely see significant focus on the monetary tightening in the developed world, which will keep financial asset prices in limbo. Later in the year, when inflation is back 'under control', equity markets could prosper.

So, after the ultra-loose monetary policies seen across the developed world over the past couple of years, next year will be different. A hiking cycle caused by resilient economic growth is typically a good sign for emerging markets equities. An era of growth-inspired monetary tightening is also typically supportive for 'value' asset classes and value stocks. After a year of underperformance relative to developed markets, emerging markets equities might start to perform better than their developed counterparts.

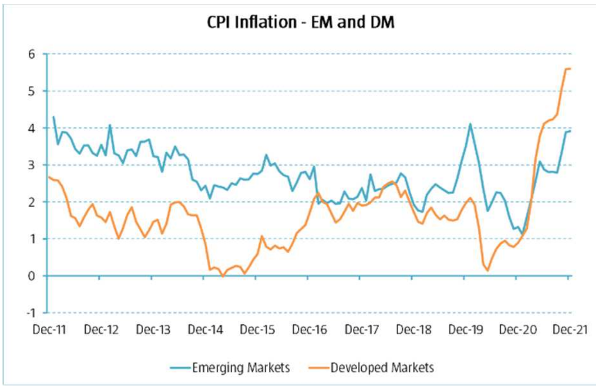
Over the last couple of years, emerging markets equities have discounted a lot of negative news, while the developed world kept translating good news into all-time highs for equity markets. The good news came from re-opening after the pandemic and strong earnings results in both developed and emerging markets. Despite that, emerging markets have traded flattish in 2021. The resulting derating has led to a price/earnings (P/E) ratio for the MSCI Emerging Markets Index of close to 12 times earnings per share (EPS) expected for 2022, while the MSCI World Index trades at an average P/E ratio of 18 times EPS expected for 2022. Therefore, emerging equities seem to have fully anticipated the tapering in Europe and the US.

In short, emerging markets have only incorporated the bad news in current share prices, whereas developed markets have only discounted the good news in their equity prices.

Inflation environment is still benign, though monetary policy is tight

Next to the before mentioned headwinds, we see various tailwinds, such as the much lower inflationary pressures in emerging markets relative to developed ones, as illustrated in Figure 8. Across most emerging countries, the macroeconomic environment is strong, and inflation has been moving higher only gradually.

Figure 8 | Inflation estimates



Source: IBES, MSCI, Robeco, December 2021.

The year 2021 saw a spike in commodity-related inflation. Yet consumer prices only rose modestly and still remain under the pre-Covid levels of March 2020. Meanwhile, consumer prices in developed markets are on an accelerating trajectory and currently at triple the levels reached in early 2020.

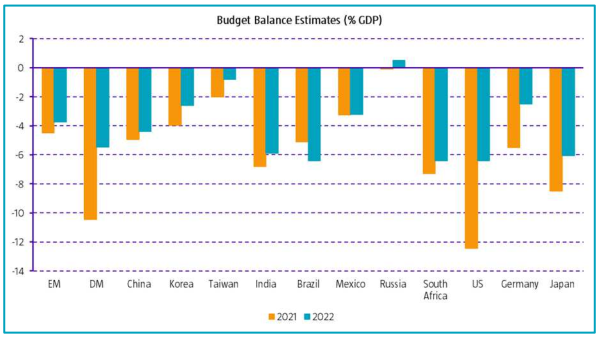
Emerging markets started tightening early and most of their central banks are more hawkish than their developed counterparts. Latin America is leading the pack. Brazil has hiked policy rates from 2% in March 2021 to 9.25% currently. Russia has tightened from 4.25% to 8.50%. As a rare exception, Turkey recently surprised the market with a rate cut back to 14%, while inflation remains above 20%, a situation that is not sustainable in our opinion. China recently joined in monetary easing camp. With inflation in the low single digits, we do expect more easing early in 2022.

Most other central banks in large emerging markets are either keeping rates steady at current low levels, or have started hiking policy rates cautiously. The Bank of Korea started hiking in August 2021, from 0.50% to 0.75%, followed by another hike in November to 1%. It remains to be seen how hawkish emerging market central banks will eventually become in relation to the US tapering.

Tailwinds from budget and current account balances

We continue to be constructive regarding macroeconomics in emerging markets, particularly in North Asia. Strong fundamentals support our stance, as this region could see GDP growth numbers in the low single digits in 2021 and 2022, with large current account surpluses and relatively low fiscal deficits. On the other hand, South Asia and most of Latin America and EMEA could see high single digit GDP growth, resilient current account balances and large fiscal deficits. On average, the fiscal deficit in emerging markets might halve in 2022 as a percentage of GDP (from 10% to 5%).

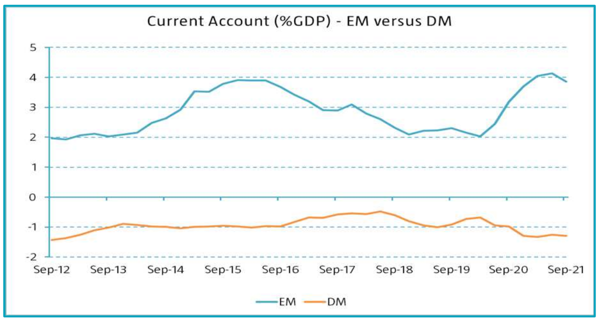
Figure 9 | Budget balance estimates



Source: Bloomberg, MSCI, Robeco, December 2021.

On average, emerging markets' current account balances look much better than those of developed ones. The same is true for fiscal balances. Figures 9 and 10 illustrate this backdrop.

Figure 10 | Current account estimates



Source: Bloomberg, MSCI, Robeco, December 2021.

Earnings expectations are decelerating

Figure 11 | Earnings revisions in emerging markets

Source: IBES, MSCI, Robeco, December 2021.

In December, the one-month earnings revisions ratio in emerging markets dropped to 1.03, as Figure 12 shows. It remains above 1.0 and comfortably above the long-term average earnings revisions ratio, which are positive signs.

Figure 12 | Trends in earnings expectations in emerging markets

Source: Bank of America, December 2021.

Earnings revisions are lower in emerging markets than in developed ones. After a rise in earnings of around 40% in 2021, earnings growth is expected to decelerate in 2022 to circa 10%. All in all, we consider the earnings factor as neutral for emerging markets.

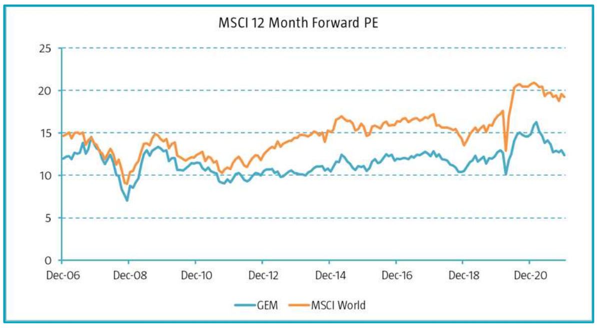
Figure 13 | Trends in earnings expectations MSCI World Index

Source: IBES, Robeco, December 2021.

Valuation a positive factor for emerging markets

Valuation remains a positive factor for emerging markets. The 12-month forward P/E ratio approached a 10-year low early in 2020, but bounced back to higher levels, as Figure 14 shows.

Figure 14 | Valuations remain attractive in emerging markets



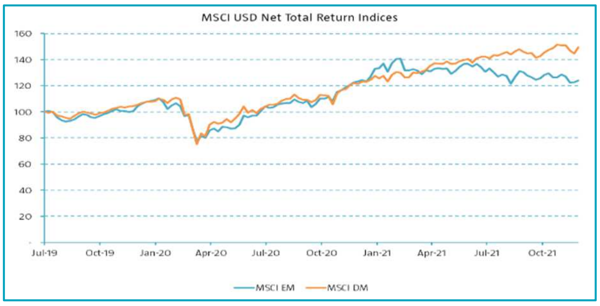
Source: IBES, MSCI, Robeco, December 2021.

The average P/E ratio in emerging markets is close to 12.5 times, compared to 19 times for the MSCI World Index. This translates into more than 35% valuation discount for emerging markets, relative to developed ones. The average historical discount is closer to 20%. From a price-to-book perspective (P/BV), emerging equities are trading at a 30% discount relative to developed ones. The average historical discount is about 15%.

Technical picture is downgraded to negative

After outperforming the MSCI World Index, emerging markets have been lagging their developed counterparts recently. Over the last 12 months, emerging equity markets returned a modest 2%, while developed markets returned more than 26% in euros. As a result, the technical factor remains a negative.

Figure 15 | Emerging markets' technical indicators are in line with those of developed ones

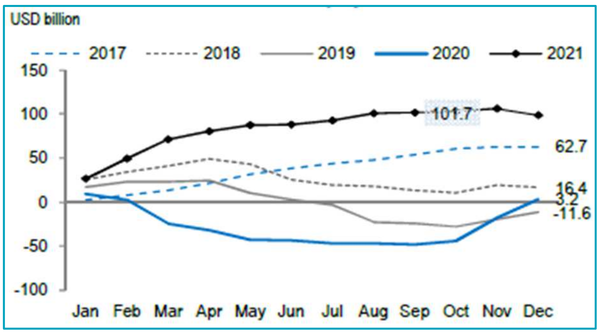


Source: MSCI, Robeco, December 2021

Sentiment remains neutral

We keep the sentiment factor at a neutral stance, following the more than USD 100 billion of cumulative inflows into emerging market equity funds in 2021. The inflows are expected to continue as investors look for attractively valued asset classes offering high yields. In an era of reopening economies and large-scale vaccination campaigns, global investors' appetite for risk might remain high. Simultaneously, investors might seek more 'value' for their portfolios. However, we do expect the current deceleration of inflows to continue as tapering accelerates in 2022. In 2021, inflows into emerging equity funds surpassed USD 100 billion, a level not seen in over five years, as Figure 9 shows.

Figure 16 | EM Equity annual cumulative flows



Source: EPFR Global, December 2021.

Implications for portfolio positioning

We maintain the value tilt in our Emerging Markets Equity portfolios, which have a lower average P/E ratio than the MSCI Emerging Markets Index. Within emerging markets, we remain constructive on North Asia, due to stronger macroeconomic fundamentals. In the current 'tapering era', the focus will shift more and more towards potential macroeconomic vulnerabilities, such as current account deficits. The largest current account surpluses are to be found in North Asia (China, Taiwan, and South Korea). These countries are also more resilient from a currency perspective.

The portfolios remain close to their maximum permissible overweight in South Korea. We have lowered our active position in Taiwan to a slight underweight stance. Within the rest of emerging markets, we maintained our overweight positions in Greece, Russia, and Indonesia, as we believe the chances of a strong rebound in their economies and corporate profits are high. Current valuations do not reflect the earnings recovery expected in these countries.

From a sector perspective, we keep a comfortable overweight position in the Consumer Discretionary and Information Technology sectors. Meanwhile, we keep a significant underweight position in the expensive Consumer Staples sector. We also have a slight overweight position in Financials. Valuations have corrected the most in this sector during the pandemic, and in some countries the credit profile is better than initially expected.

We have a neutral view on the Chinese equities market, and relatively more constructive on domestic A shares. While we expect the Chinese government to boost growth-supportive policies, easing conditions for the property sector and stepping-up infrastructure investment, economic growth will likely not bottom out before the second half of 2022, adding uncertainties to the market's near-term prospects. Geopolitical risks and Covid-19 resurgences could also lead to market volatility in the first quarter of 2022.

China's policy is changing from regulatory tightening to supporting growth. Deleveraging and decarbonization will take a back seat in the short term, since stability is now the priority and reasonable growth (i.e., 5% or more) would likely be the bottom line. More macro policy support could come, with proactive fiscal policy, prudent monetary policy, and ample liquidity. There could be faster fiscal spending, new tax cuts, and some infrastructure investment could be brough forward. A largely stable headline fiscal deficit with new special local government bond quota, and a modestly stronger infrastructure investment in 2022 is expected. Monetary policy will be prudent but still with ample liquidity, especially to increase support for SMEs, innovation, and green development.

China will be more pragmatic on it 'common prosperity' and 'decarbonization' push. The country will focus more on sustaining economic and household income growth, and supporting employment rather than major radical income distribution. A gradual phasing out of traditional energy will be implemented based on a safe and reliable supply of new energy. New energy (i.e., renewables) investment will remain strong, and the share of non-fossil energy consumption will continue to rise in the coming years.

Other themes such as industrial upgrading, technology innovation and structural reform continues to get policy support. Reforms set to continue in areas such as full implementation of registration-based IPO system, pushing for reforms in power grid and railway sectors, securing the national treatment for foreign companies, and attracting more investments from multinational corporations.

Chinese equity valuations have come back to a level below their historical average. We expect further negative earnings revisions for the MSCI China Index, due to its heavy exposure to the internet sector, which is under regulatory scrutiny. Meanwhile, the economic slowdown is adding pressure to earnings in other sectors, including Financials and Consumer Discretionary. A-shares' earning revisions have bottomed out and become more stable.

The Chinese Equities portfolio has an overweight position in the Utilities, Industrials, and Real Estate sectors, and an underweight position in Financials, Consumer Discretionary and Communication Services.

The Chinese A shares equities portfolio is overweight to Utilities, Industrials and Consumer Discretionary, and underweight to Financials and Health Care.

Important Information
Robeco Institutional Asset Management B.V. has a license as manager of Undertakings for Collective Investment in Transferable Securities (UCITS) and Alternative Investment Funds (AIFs) ("Fund(s)") from The Netherlands Authority for the Financial Markets in Amsterdam. This marketing document is solely intended for professional investors, defined as investors qualifying as professional clients, have requested to be treated as professional clients or are authorized to receive such information under any applicable laws. Robeco Institutional Asset Management B.V and/or its related, affiliated and subsidiary companies, ("Robeco"), will not be liable for any damages arising out of the use of this document. Users of this information who provide investment services in the European Union have their own responsibility to assess whether they are allowed to receive the information in accordance with MiFID II regulations. To the extent this information qualifies as a reasonable and appropriate minor non-monetary benefit under MiFID II, users that provide investment services in the European Union are responsible to comply with applicable recordkeeping and disclosure requirements. The content of this document is based upon sources of information believed to be reliable and comes without warranties of any kind. Without further explanation this document cannot be considered complete. Any opinions, estimates or forecasts may be changed at any time without prior warning. If in doubt, please seek independent advice. It is intended to provide the professional investor with general information on Robeco's specific capabilities, but has not been prepared by Robeco as investment research and does not constitute an investment recommendation or advice to buy or sell certain securities or investment products and/or to adopt any investment strategy and/or legal, accounting or tax advice. All rights relating to the information in this document are and will remain the property of Robeco. This material may not be copied or used with the public. No part of this document may be reproduced, or published in any form or by any means without Robeco's prior written permission. Investment involves risks. Before investing, please note the initial capital is not guaranteed. Investors should ensure that they fully understand the risk associated with any Robeco product or service offered in their country of domicile. Investors should also consider their own investment objective and risk tolerance level. Historical returns are provided for illustrative purposes only. The price of units may go down as well as up and the past performance is not indicative of future performance. If the currency in which the past performance is displayed differs from the currency of the country in which you reside, then you should be aware that due to exchange rate fluctuations the performance shown may increase or decrease if converted into your local currency. The performance data do not take account of the commissions and costs incurred on trading securities in client portfolios or on the issue and redemption of units. Unless otherwise stated, the prices used for the performance figures of the Luxembourg-based Funds are the end-of-month transaction prices net of fees up to 4 August 2010. From 4 August 2010, the transaction prices net of fees will be those of the first business day of the month. Return figures versus the benchmark show the investment management result before management and/or performance fees; the Fund returns are with dividends reinvested and based on net asset values with prices and exchange rates of the valuation moment of the benchmark. Please refer to the prospectus of the Funds for further details. Performance is quoted net of investment management fees. The ongoing charges mentioned in this document are the ones stated in the Fund's latest annual report at closing date of the last calendar year. This document is not directed to, or intended for distribution to or use by any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, document, availability or use would be contrary to law or regulation or which would subject any Fund or Robeco Institutional Asset Management B.V. to any registration or licensing requirement within such jurisdiction. Any decision to subscribe for interests in a Fund offered in a particular jurisdiction must be made solely on the basis of information contained in the prospectus, which information may be different from the information contained in this document. Prospective applicants for shares should inform themselves as to legal requirements also applying and any applicable exchange control regulations and applicable taxes in the countries of their respective citizenship, residence or domicile. The Fund information, if any, contained in this document is qualified in its entirety by reference to the prospectus, and this document should, at all times, be read in conjunction with the prospectus. Detailed information on the Fund and associated risks is contained in the prospectus. The prospectus and the Key Investor Information Document for the Robeco Funds can all be obtained free of charge at www.robeco.com.

Additional Information for US investors
Robeco is considered "participating affiliated" and some of their employees are "associated persons" of Robeco Institutional Asset Management US Inc. ("RIAM US") as per relevant SEC no-action guidance. Employees identified as associated persons of RIAM US perform activities directly or indirectly related to the investment advisory services provided by RIAM US. In those situation these individuals are deemed to be acting on behalf of RIAM US, a US SEC registered investment adviser. SEC regulations are applicable only to clients, prospects and investors of RIAM US. RIAM US is wholly owned subsidiary of ORIX Corporation Europe N.V. and offers investment advisory services to institutional clients in the US.
Additional Information for investors with residence or seat in Australia and New Zealand
This document is distributed in Australia by Robeco Hong Kong Limited (ARBN 156 512 659) ("Robeco"), which is exempt from the requirement to hold an Australian financial services license under the Corporations Act 2001 (Cth) pursuant to ASIC Class Order 03/1103. Robeco is regulated by the Securities and Futures Commission under the laws of Hong Kong and those laws may differ from Australian laws. This document is distributed only to "wholesale clients" as that term is defined under the Corporations Act 2001 (Cth). This document is not for distribution or dissemination, directly or indirectly, to any other class of persons. In New Zealand, this document is only available to wholesale investors within the meaning of clause 3(2) of Schedule 1 of the Financial Markets Conduct Act 2013 ('FMCA'). This document is not for public distribution in Australia and New Zealand.
Additional Information for investors with residence or seat in Austria
This information is solely intended for professional investors or eligible counterparties in the meaning of the Austrian Securities Oversight Act.
Additional Information for investors with residence or seat in Brazil
The Fund may not be offered or sold to the public in Brazil. Accordingly, the Fund has not been nor will be registered with the Brazilian Securities Commission – CVM, nor has it been submitted to the foregoing agency for approval. Documents relating to the Fund, as well as the information contained therein, may not be supplied to the public in Brazil, as the offering of the Fund is not a public offering of securities in Brazil, nor may they be used in connection with any offer for subscription or sale of securities to the public in Brazil.
Additional Information for investors with residence or seat in Canada
No securities commission or similar authority in Canada has reviewed or in any way passed upon this document or the merits of the securities described herein, and any representation to the contrary is an offence. Robeco Institutional Asset Management B.V. is relying on the international dealer and international adviser exemption in Quebec and has appointed McCarthy Tétrault LLP as its agent for service in Quebec.
Additional information for investors with residence or seat in the Republic of Chile
Neither Robeco nor the Robecofunds have been registered with the *Comisión para el Mercado Financiero* pursuant to law no. 18.045, the *Ley de Mercado de Valores* and regulations thereunder. This document does not constitute an offer of, or an invitation to subscribe for or purchase, shares of the Funds in the Republic of Chile, other than to the specific person who individually requested this information on his own initiative. This may therefore be treated as a "private offering" within the meaning of article 4 of the *Ley de Mercado de Valores* (an offer that is not addressed to the public at large or to a certain sector or specific group of the public).
Additional Information for investors with residence or seat in Colombia
This document does not constitute a public offer in the Republic of Colombia. The offer of the Fund is addressed to less than one hundred specifically identified investors. The Fund may not be promoted or marketed in Colombia or to Colombian residents, unless such promotion and marketing is made in compliance with Decree 2555 of 2010 and other applicable rules and regulations related to the promotion of foreign Funds in Colombia.
Additional Information for investors with residence or seat in the Dubai International Financial Centre (DIFC), United Arab Emirates
This material is being distributed by Robeco Institutional Asset Management B.V. (DIFC Branch) located at Office 209, Level 2, Gate Village Building 7, Dubai International Financial Centre, Dubai, PO Box 482060, UAE. Robeco Institutional Asset Management B.V. (DIFC Branch) is regulated by the Dubai Financial Services Authority ("DFSA") and only deals with Professional Clients or Market Counterparties and does not deal with Retail Clients as defined by the DFSA.
Additional Information for investors with residence or seat in France
Robeco Institutional Asset Management B.V. is at liberty to provide services in France. Robeco France is a subsidiary of Robeco whose business is based on the promotion and distribution of the group's funds to professional investors in France.
Additional Information for investors with residence or seat in Germany
This information is solely intended for professional investors or eligible counterparties in the meaning of the German Securities Trading Act.
Additional Information for investors with residence or seat in Hong Kong
The contents of this document have not been reviewed by the Securities and Futures Commission ("SFC") in Hong Kong. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice. This document has been distributed by Robeco Hong Kong Limited ("Robeco"). Robeco is regulated by the SFC in Hong Kong.
Additional Information for investors with residence or seat in Italy
This document is considered for use solely by qualified investors and private professional clients (as defined in Article 26 (1) (b) and (d) of Consob Regulation No. 16190 dated 29 October 2007). If made available to Distributors and individuals authorized by Distributors to conduct promotion and marketing activity, it may only be used for the purpose for which it was conceived. The data and information contained in this document may not be used for communications with Supervisory Authorities. This document does not include any information to determine, in concrete terms, the investment inclination and, therefore, this document cannot and should not be the basis for making any investment decisions.
Additional Information for investors with residence or seat in Japan
This documents are considered for use solely by qualified investors and are being distributed by Robeco Japan Company Limited, registered in Japan as a Financial Instruments Business Operator, [registered No. the Director of Kanto Local Financial Bureau (Financial Instruments Business Operator), No, 2780, Member of Japan Investment Advisors Association].
Additional Information for investors with residence or seat in Mexico
The funds have not been and will not be registered with the National Registry of Securities, maintained by the Mexican National Banking and Securities Commission and, as a result, may not be offered or sold publicly in Mexico. Robeco and any underwriter or purchaser may offer and sell the funds in Mexico on a private placement basis to Institutional and Accredited Investors, pursuant to Article 8 of the Mexican Securities Market Law.
Additional Information for investors with residence or seat in Peru
The Fund has not been registered with the Superintendencia del Mercado de Valores (SMV) and is being placed by means of a private offer. SMV has not reviewed the information provided to the investor. This document is only for the exclusive use of institutional investors in Peru and is not for public distribution.
Additional Information for investors with residence or seat in Shanghai
This material is prepared by Robeco Overseas Investment Fund Management (Shanghai) Limited Company ("Robeco Shanghai") and is only provided to the specific objects under the premise of confidentiality. Robeco Shanghai was registered as a private fund manager with the Asset Management Association of China in September 2018. Robeco Shanghai is a wholly foreign-owned enterprise established in accordance with the PRC laws, which enjoys independent civil rights and civil obligations. The statements of the shareholders or affiliates in the material shall not be deemed to a promise or guarantee of the shareholders or affiliates of Robeco Shanghai, or be deemed to any obligations or liabilities imposed to the shareholders or affiliates of Robeco Shanghai.
Additional Information for investors with residence or seat in Singapore
This document has not been registered with the Monetary Authority of Singapore ("MAS"). Accordingly, this document may not be circulated or distributed directly or indirectly to persons in Singapore other than (i) to an institutional investor under Section 304 of the SFA, (ii) to a relevant person pursuant to Section 305(1), or any person pursuant to Section 305(2), and in accordance with the conditions specified in Section 305, of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA. The contents of this document have not been reviewed by the MAS. Any decision to participate in the Fund should be made only after reviewing the sections regarding investment considerations, conflicts of interest, risk factors and the relevant Singapore selling restrictions (as described in the section entitled "Important Information for Singapore Investors") contained in the prospectus. You should consult your professional adviser if you are in doubt about the stringent restrictions applicable to the use of this document, regulatory status of the Fund, applicable regulatory protection, associated risks and suitability of the Fund to your objectives. Investors should note that only the sub-Funds listed in the appendix to the section entitled "Important Information for Singapore Investors" of the prospectus ("Sub-Funds") are available to Singapore investors. The Sub-Funds are notified as restricted foreign schemes under the Securities and Futures Act, Chapter 289 of Singapore ("SFA") and are invoking the exemptions from compliance with prospectus registration requirements pursuant to the exemptions under Section 304 and Section 305 of the SFA. The Sub-Funds are not authorized or recognized by the MAS and shares in the Sub-Funds are not allowed to be offered to the retail public in Singapore. The prospectus of the Fund is not a prospectus as defined in the SFA. Accordingly, statutory liability under the SFA in relation to the content of prospectuses would not apply. The Sub-Funds may only be promoted exclusively to persons who are sufficiently experienced and sophisticated to understand the risks involved in investing in such schemes, and who satisfy certain other criteria provided under Section 304, Section 305 or any other applicable provision of the SFA and the subsidiary legislation enacted thereunder. You should consider carefully whether the investment is suitable for you. Robeco Singapore Private Limited holds a capital markets services license for fund management issued by the MAS and is subject to certain clientele restrictions under such license.
Additional Information for investors with residence or seat in Spain
Robeco Institutional Asset Management BV, Sucursal en España with identification number W0032687F and having its registered office in Madrid at Calle Serrano 47-14º, is registered with the Spanish Commercial Registry in Madrid, in volume 19.957, page 190, section 8, sheet M-351927 and with the National Securities Market Commission (CNMV) in the Official Register of branches of European investment services companies, under number 24. The investment funds or SICAV mentioned in this document are regulated by the corresponding authorities of their country of origin and are registered in the Special Registry of the CNMV of Foreign Collective Investment Institutions marketed in Spain.
Additional Information for investors with residence or seat in South Africa
Robeco Institutional Asset Management B.V is registered and regulated by the Financial Sector Conduct Authority in South Africa.
Additional Information for investors with residence or seat in Switzerland
The Fund(s) are domiciled in Luxembourg. This document is exclusively distributed in Switzerland to qualified investors as defined in the Swiss Collective Investment Schemes Act (CISA). This material is distributed by Robeco Switzerland Ltd, postal address: Josefstrasse 218, 8005 Zurich. ACOLIN Fund Services AG, postal address: Affolternstrasse 56, 8050 Zürich, acts as the Swiss representative of the Fund(s). UBS Switzerland AG, Bahnhofstrasse 45, 8001 Zurich, postal address: Europastrasse 2, P.O. Box, CH-8152 Opfikon, acts as the Swiss paying agent. The prospectus, the Key Investor Information Documents (KIIDs), the articles of association, the annual and semi-annual reports of the Fund(s), as well as the list of the purchases and sales which the Fund(s) has undertaken during the financial year, may be obtained, on simple request and free of charge, at the office of the Swiss representative ACOLIN Fund Services AG. The prospectuses are also available via the website www.robeco.ch.
Additional Information relating to RobecoSAM-branded funds / services
Robeco Switzerland Ltd, postal address Josefstrasse 218, 8005 Zurich, Switzerland has a license as asset manager of collective assets from the Swiss Financial Market Supervisory Authority FINMA. RobecoSAM-branded financial instruments and investment strategies referring to such financial instruments are generally managed by Robeco Switzerland Ltd. The RobecoSAM brand is a registered trademark of Robeco Holding B.V. The brand RobecoSAM is used to market services and products which do entail Robeco's expertise on Sustainable Investing (SI). The brand RobecoSAM is not to be considered as a separate legal entity.
Additional Information for investors with residence or seat in Liechtenstein
This document is exclusively distributed to Liechtenstein-based duly licensed financial intermediaries (such as e.g. banks, discretionary portfolio managers, insurance companies, fund of funds, etc.) which do not intend to invest on their own account into Fund(s) displayed in the document. This material is distributed by Robeco Switzerland Ltd, postal address: Josefstrasse 218, 8005 Zurich, Switzerland. LGT Bank Ltd., Herrengasse 12, FL-9490 Vaduz, Liechtenstein acts as the representative and paying agent in Liechtenstein. The prospectus, the Key Investor Information Documents (KIIDs), the articles of association, the annual and semi-annual reports of the Fund(s) may be obtained from the representative or via the website wwww.robeco.ch.
Additional Information for investors with residence or seat in the United Arab Emirates
Some Funds referred to in this marketing material have been registered with the UAE Securities and Commodities Authority (the Authority). Details of all Registered Funds can be found on the Authority's website. The Authority assumes no liability for the accuracy of the information set out in this material/document, nor for the failure of any persons engaged in the investment Fund in performing their duties and responsibilities.
Additional Information for investors with residence or seat in the United Kingdom
Robeco is subject to limited regulation in the UK by the Financial Conduct Authority. Details about the extent of our regulation by the Financial Conduct Authority are available from us on request.
Additional Information for investors with residence or seat in Uruguay
The sale of the Fund qualifies as a private placement pursuant to section 2 of Uruguayan law 18,627. The Fund must not be offered or sold to the public in Uruguay, except in circumstances which do not constitute a public offering or distribution under Uruguayan laws and regulations. The Fund is not and will not be registered with the Financial Services Superintendency of the Central Bank of Uruguay. The Fund corresponds to investment funds that are not investment funds regulated by Uruguayan law 16,774 dated September 27, 1996, as amended.