

Press Release

Robeco publishes its outlook for 2021: 'Tackling the trilemma'

Rotterdam, 19 November 2020 – In its annual outlook, Robeco believes 2021 will be a good year for risky assets, with equities realizing above average [returns](#). However, in a scenario in which a working Covid-19 vaccine is not readily available to a large part of the global population in 2021, all bets are off and all risky assets will realize negative returns.

Robeco expects that investors will continue to face a 'trilemma' in 2021 of trying to balance three issues arising from the Covid-19 crisis: restoring public health, returning to normal economic functioning and maintaining personal freedoms. In the base case scenario, a vaccine becomes available in the first half of 2021. The combination of a timely, effective vaccine with ongoing fiscal and monetary stimulus means GDP growth and, more importantly, earnings growth continues to improve. Earnings per share (EPS) levels near those seen before the Covid-19 outbreak, implying roughly 20% growth as the economic cycle moves from recession to recovery. Historically this phase has been characterized by the strongest EPS growth of the business cycle and a rise in valuation. But given where current valuations are, Robeco believes the room for further multiple expansion is limited, although equity returns look very healthy.

A recovery in company earnings means the rise in high yield bond defaults would halt. With current spread levels slightly above the long-term average, there is room for further tightening. High yield bonds look somewhat less attractive than equities from a risk-return perspective, though. Spreads on investment grade corporate bonds will tighten. Also, there is some rotation out of government bonds into corporate bonds by investors looking for yield but unwilling to increase their overall risk profile. Government bond yields will continue to grind higher, especially in the US. With the Fed aiming for an asymmetrical inflation target, leaving room to make up for below-target inflation, little action is expected when inflation expectations rise. Yet with central bank policy still highly accommodative and discussions lingering about what asymmetric inflation targeting means in practice, the potential rise in yields is limited. In addition, any rise is expected to occur at the longer end of the yield curve, as short-term rates are kept down. Hence, the yield curve will steepen.

The constructive environment for risky assets benefits local currency emerging debt as well. There is ample room for emerging currencies to recoup heavy losses against the US dollar. But since Robeco sees the Euro rising against the US dollar as well, currency gains in euro are less outspoken. Also, with monetary policy less accommodative compared to developed markets, the case for continuous low yields is somewhat weaker.

The rebalancing of commodity supply and demand that started a couple of months ago continues. Demand for base materials driven by China in particular increases, pushing prices higher. Robeco sees OPEC+ increasing production slowly, matched by a return in demand and providing decent upside for oil prices.

Peter van der Welle, Multi Asset Strategist: *"2020 will likely go down as one of the most remarkable years in history from an economic perspective as Covid-19 brought the deepest recession since the 1930s. The world will continue to rely on close cooperation between governments and central banks, continuing coordination that has so far insulated much of the economic damage. We haven't yet found an acceptable trade-off between public health, the economy and personal freedoms. It is precisely this trade-off and the easing of it that will shape the economic, market and social circumstances in 2021."*

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[Jeroen Blokland](#), Head of Multi Asset: *“Much depends on the timeliness and effectiveness of a vaccine, and the extent to which we ‘return’ to a kind of ‘New Normal’.* But we’re pretty optimistic and we see an easing of the policy trilemma between public health, sustaining economic activity and personal freedom, in our base case scenario. Consequently, macroeconomic and market volatility will come down considerably as a New Normal takes shape. This environment typically bodes well for financial markets, meaning we’re quite bullish for 2021. ”

The full report can be downloaded here: www.robeco.com/en/themes/outlook/2021/index.html

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About Robeco

Robeco is a pure-play international asset manager founded in 1929 with headquarters in Rotterdam, the Netherlands, and 17 offices worldwide. A global leader in sustainable investing since 1995, its unique integration of sustainable as well as fundamental and quantitative research enables the company to offer institutional and private investors an extensive selection of active investment strategies, for a broad range of asset classes. As at 30 June 2020, Robeco had EUR 155 billion in assets under management, of which EUR 144 billion is committed to ESG integration. Robeco is a subsidiary of ORIX Corporation Europe N.V. More information is available at www.robeco.com.