ROBECO
The Investment Engineers

# FUNDAMENTAL EQUITY QUARTERLY

## 03 2025

THIS EDITION'S HIGHLIGHTS

### P3 Kees Verbaas, Robeco's Global Head of Fundamental Equity discusses the new economic world order

The first quarter of 2025 saw significant shifts in global stock allocations due to President Trump's policies, moving investments from the US to Europe and emerging markets in a nascent correction of the US's valuation premium. The economic outlook is very uncertain and this demands a balanced global portfolio, including emerging markets with alpha's importance likely to eclipse beta. Despite this new world order, we think innovation in Silicon Valley, highlighted by Nvidia's USD 500 billion investment plan, will remain a key driver of future economic and investment returns

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### P8 Interview with Chris Berkouwer, portfolio manager in Robeco's Global Equity team

Chris Berkouwer is deputy co-lead portfolio manager of Robeco's flagship high-conviction Global Focused equity strategy. In this in-depth interview, he talks about his background in investing, what works when selecting stocks from a global universe, and what the political backlash against ESG means, or doesn't mean. We also learn about the challenges ahead in equity investing, his favorite investment of all time as well as an escalator encounter with Jamie Dimon.

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THIS EDITION'S HIGHLIGHTS

## P10 Trip notes: Yanxin Liu's notes from a recent tech conference

The more things change the more they stay the same. Despite the 2025 reverse in the Magnificent Seven, the tech community in San Francisco is getting on with business. At the Morgan Stanley TMT conference, AI was the central theme, with discussions on infrastructure, large language models, and enterprise adoption. Despite market volatility, tech companies continue to push forward, driven by AI advancements. Amidst uncertainties, the optimism surrounding AI remains strong, promising transformative impacts on the tech sector.

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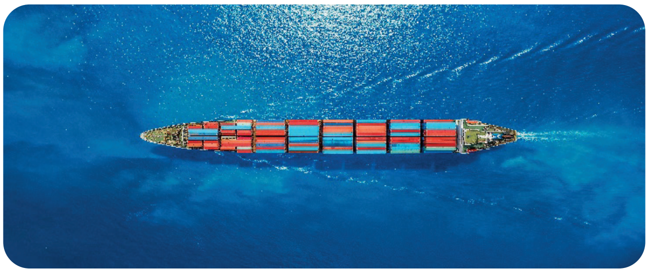

## P11 Where we differ from the market. Could Trump's trade shock end well?

Market uncertainty and growth fears have surged due to President Trump's mercantile trade policies. While the direction of developed and emerging market equities remains unclear, two potential positive outcomes are emerging. The US's approach may strengthen regional trading agreements and prompt countries with protectionist policies to reconsider. Despite the rapid changes and potential damage from an extended trade war, a new steady state for global trade could ultimately rebalance world trade and leave us all in a better place.

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# EUROPE'S Q1 IN 3 SECTORS

**+20.7%**

### FINANCIALS

Europe's banks have built on a strong 2024. Stoxx 600 Financials index year-to-date performance to 27 March

**-0.8%**

### TECH

Europe tech sector proves resilient. Stoxx 600 Technology index year-to-date performance to 27 March

**+29.6%**

### DEFENSE

Geopolitical shock boosts Europe defense expenditure. Stoxx Total Aerospace & Defense index year-to-date performance to 27 March

# .....AND US EQUIVALENTS

**+3.2%**

### FINANCIALS

No impetus from deregulation as yet. Dow Jones US Financials Index year-to-date to 27 March

**-10.2%**

### TECH

Tech corrected after huge 2024 and the DeepSeek reveal. Dow Jones US Technology Index year-to-date to 27 March

**+7.6%**

### DEFENSE

US defense stocks have performed. Dow Jones US Select Aerospace & Defense Index year-to-date to 27 March

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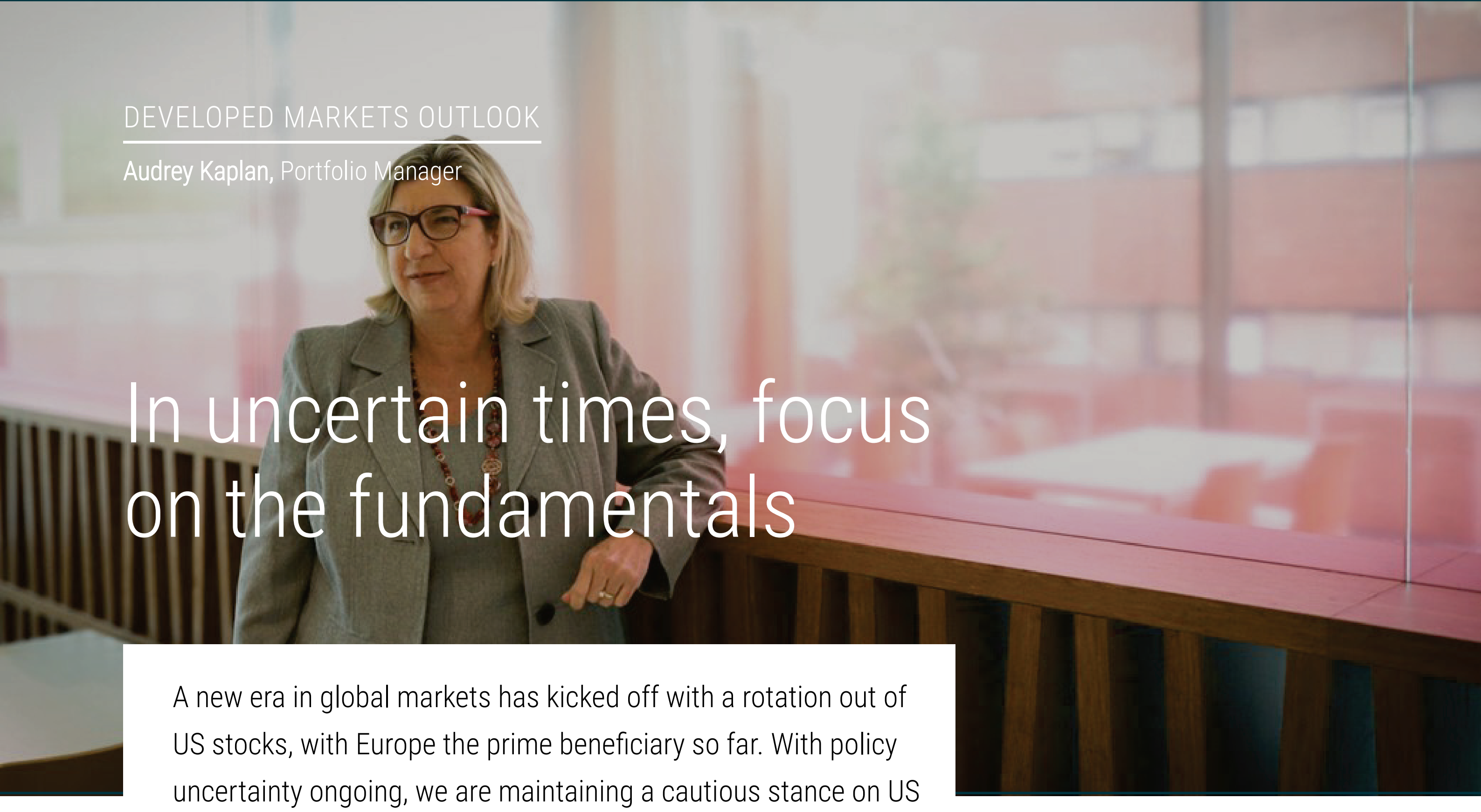
# Equities in a new world order

We have never seen such an action-packed start to a new US administration period. Foreign, internal and trade policy is being overhauled with a decisive wave of executive orders, taking markets repeatedly by surprise. Domestically, businessman Trump looks at public finances like a company. With too many liabilities, the balance sheet does not add up. The government's P&L is not healthy, with too many expenses and not enough revenues. As President, Trump intends to fix this, which in itself is not a bad idea. The chosen instruments, however, we believe are highly questionable from an economic point of view. Tariffs risk being inflationary, detrimental to growth and painful for the purchasing power of the less privileged. Snubbing long-time allies and not upholding trade agreements might impact market sentiment in a costly way, resulting in less capital flows.

The incredible intensity of policy measures is currently driving a sharp pivot in global stock allocations, away from the US and toward Europe and emerging markets. To us, this represents a rebalancing, and a nascent correction of the large valuation premium the US has established in the past decade. The sizable spending plans by European governments make the region suddenly more attractive. Policy responses in China should benefit that market as well, as described with a tennis analogy in Wim-Hein Pals' emerging markets outlook piece. We have shifted the portfolios accordingly and remain agile enough to take opportunities when they come as conditions are changing quickly.

In this time of rapid change we must also be mindful of staying invested in future economic drivers. Trip notes (page 10) from our global portfolio manager Yanxin Liu's recent visit to San Francisco remind us that the engine of innovation in Silicon Valley is still running fast, and Nvidia's recently revealed USD 500 billion capital investment plan confirms that. The productivity acceleration we anticipate from technology application across the global economy is still to manifest, and that will drive real economic and investment returns. There is little chance though that markets will go up in a straight line this year.

Kees Verbaas



DEVELOPED MARKETS OUTLOOK

**Audrey Kaplan,** Portfolio Manager

# In uncertain times, focus on the fundamentals

A new era in global markets has kicked off with a rotation out of US stocks, with Europe the prime beneficiary so far. With policy uncertainty ongoing, we are maintaining a cautious stance on US equities and believe our focus on quality will be rewarded.

## Equity markets reel from policy upheaval

We posited in the prior Outlook that Trump 2.0 policy would promote a round of stock market diversification where investors shift from the narrow technology companies to a broader basket of holdings. We followed such an investment strategy this quarter and were rewarded for it. The S&P 500 Equal Weight (-1.4%) beat the S&P 500 (-3.9%) and – more drastically – outperformed the Mag-7 (-13.0%) year-to-date . Trump 2.0 could be re-named Trump Turmoil 2.0.

While the administration is still in its first 100 days, the impact has already been significant, with tariffs imposed on neighbors (and allies as well as non-allies), significant federal workforce job cuts, and federal funding cuts aimed at non-government areas including the National Institutes of Health and academia. The continuous guessing about future policy is also weighing heavily on markets.

The chairman of the board of Costco, Tony James, worries that uncertainty is killing investment. "If you're a business executive right now, you don't know the path of the future, so that causes you to hold back on things temporarily." If the chairman of a high-quality defensive consumer staples company is suggesting uncertainty ahead, what about the cyclical companies geared more closely to corporate investment and global GDP? We know that the UK, Canada, Germany and Japan each invested more than USD 600 billion in the US in 2023. What happens to the US economy if allies hold back on future investments?

## Where disruption is the name of the game, buy quality.

In order to create value in an uncertain environment, we suggest following the fundamentals by sharpening your pencils and doing the necessary homework to identify high-quality companies – those with high return on invested capital (ROIC), strong free cash flows, and a desired level of sustainability.

Europe is one place where our current research suggests these high-quality companies, trading at attractive valuations, could be found. We are modestly overweight Europe and slightly underweight North America in our Global Focused equity strategy. Despite Europe starkly outperforming year-to-date, and outperforming US equities by the widest margin in 25 years, fundamentals suggest the old continent has more opportunities ahead. Confirmation will come from several supportive market conditions, including Polymarket now pricing a 70% probability of a ceasefire in Ukraine in 2025 and Europe's increasingly expansive fiscal policy, and relative valuation which is still extremely discounted to US and the world equities. Measured by MSCI AC World the forward P/E for Europe is 13.8x versus 20.3x and 17.2x for US and AC World respectively as of 19 March 2025.

The chart at the base of page 5 illustrates that S&P Europe 350 quality stocks have underperformed year-to-date and over the past 12 months relative to the rest of the S&P Europe 500. Quality stocks have been the worst-performing bucket among the key major investment styles in Europe, which has been led by value and dividend-paying companies during this uncertain time.

# "We believe this European rally relative to the US will continue in coming months

We have found companies[1] in several European sectors that fit our quality criteria, including in European Health Care (e.g. AstraZeneca), Consumer Staples (e.g. Unilever), Industrials (e.g. RELX), and Communications Services (e.g. Deutsche Telecom).

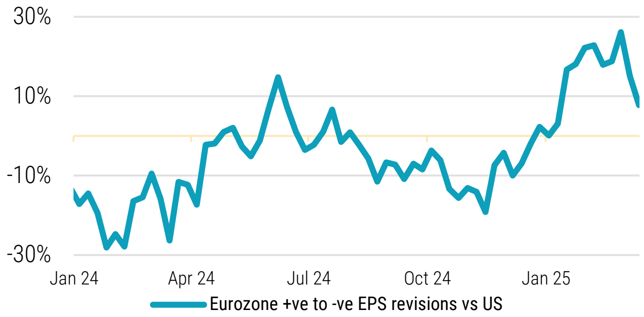
[1] As of 19 March 2025. These are not buy, sell, or hold recommendations. Holdings are subject to change and shown for illustrative purposes only to demonstrate the strategy as of the stated date. Future inclusion of these securities in the strategy is not guaranteed, nor can their future performance be predicted.

## Europe has momentum

We believe this European rally relative to the US will continue in coming months. Nevertheless, we still remain well positioned in US quality stocks, with about 72% of the strategy exposed to this factor. We continue to watch for signs of an economic recession in the US and globally. For the US, stock prices have recalibrated primarily due to tariffs and trade war concerns, while US 2-year and 10-year Treasury yields have fallen as the odds of rate cuts have risen.

In addition, year-to-date, the developed market global earnings revisions ratio improved. Revisions improved in Europe overall, led primarily by German and Spanish earnings revisions. European revisions have reached a six-month high while US revisions also improved but more moderately. Research shows Eurozone EPS revisions are 8% better than US at present and have been strong all YtD.

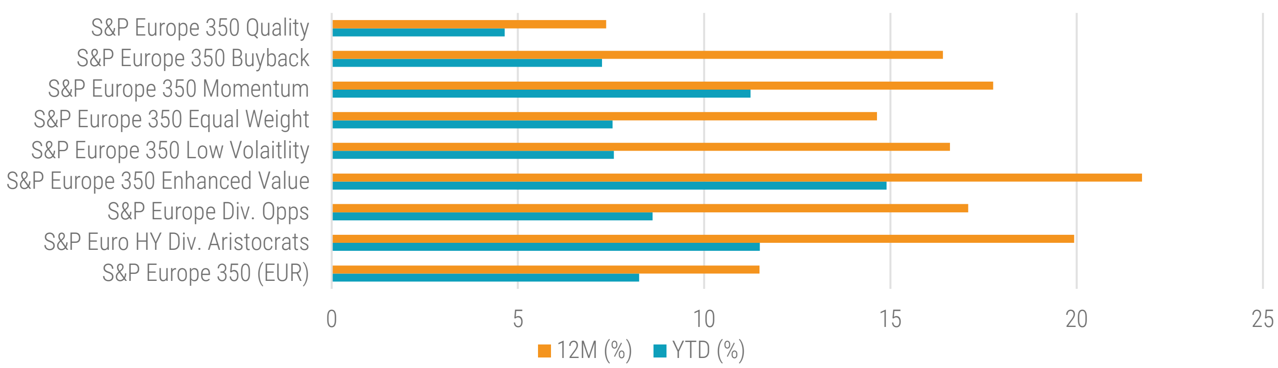
Year-to-date earnings revisions favor Eurozone over US




Source: IBES, JP Morgan, 14 March 2025

So far, we see the US economy is holding up quite well, but it is losing some steam. Europe is gaining momentum on the margin. The US economy is still growing more rapidly and remains the more vibrant in the long term, in our view. Our main concern is US consumer sentiment is slowing. Near-term there may be downside risk, creating uncertainty this year, so we have taken a small, elevated cash position and a slightly higher number of holdings as a result.

**Europe Quality stocks have lagged over multiple time horizons (YtD and 12 months)**




Source: S&P, Bloomberg, 17 March 2025

EMERGING MARKETS OUTLOOK

**Wim-Hein Pals,** Portfolio Manager

# China resurgent in the final set

Rivalry between the US and China is reaching a critical stage, with the development of DeepSeek and the US retreat into isolationism offering the Asian superpower the current advantage.

## The long match

As we're approaching springtime here in the northern hemisphere, I recently picked up my racket and started playing tennis with friends. The years of haggling on the world stage remind me in many ways of a game of tennis, the best-of-five-sets version, obviously, rather than the shorter matches we play as friends. And the two players are the biggest world powers on our planet: the US on one side of the net, China on the other. Let's say each of the last five decades represents a set in the match, and try and figure out who is winning.

## Set one: China 1980s emergence

China clearly won the first set. Following the launch of Deng Xiaoping's Open Doors policy in 1978, China's economy started liberalizing in the 1980s and companies in the west responded without hesitation. Multinationals were already setting up factories in China to take advantage of the low labor costs and the enormous hinterland with millions of (potential) consumers.

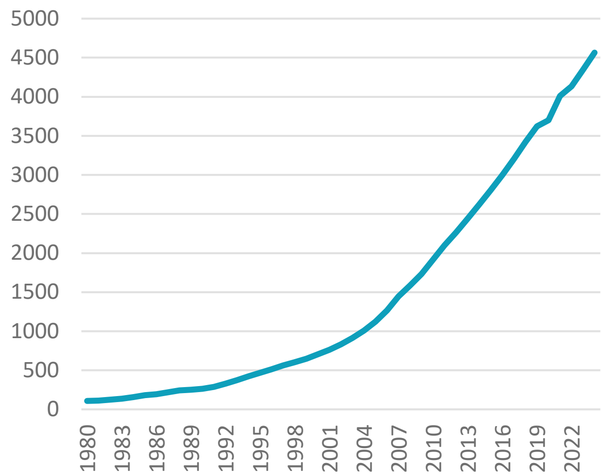
## Set two: The golden 1990s in the US

The 1990s ended up being a narrow victory for the US. Many American technology companies flourished and grew. Partly driven by speculation, share prices on the Nasdaq technology exchange rose to unprecedented heights at the end of the 1990s. At the dawn of the new millennium, the US was leading a unipolar world.

## Set three: China's decade of hypergrowth

The tech crash and 9/11 stymied US confidence if only temporarily. The pain was palpable, both on the stock market and in terms of the number of bankruptcies. At the same time – in 2001 – China became a member of the World Trade Organization (WTO). This led to a phenomenal growth boost for China's gross domestic product (GDP). Economic growth figures were in double digits for years, reaching a zenith of 15% in 2007. Three decades after the start of Deng's open-door policy, the opening liberalization of China's securities markets followed.

China GDP growth since 1980 (indexed to 100)




**Source:** World Bank

# “We believe the China rally has more legs to it

### Set 4: The TINA decade

Into the 2010s, powered by post-financial monetary crisis, US exceptionalism reasserted itself thanks to the hypergrowth of US technology giants, and all-time highs on American stock exchanges followed. While China started the decade with powerful momentum, increasing tension between politics and the emergence of China’s own tech sector and massive property bubble left China vulnerable to a growth slowdown.

### Set 5: China resurgent in a multi-polar world

Competition has intensified with the US trying every tactic to get the opponent out of its game. Sanctions and trade barriers imposed by Washington on China are the equivalent of the Chinese having to walk onto the court carrying only an old, wooden racket. It is therefore all the more remarkable how resilient China has been by, for example, launching a competitive AI model, DeepSeek, without easy access to the latest semiconductor technology.We are in a thrilling phase of the fifth and deciding set. The immense advance of the American 'Magnificent Seven' appears to be in its final throes. It’s not clear who will win, but it does seem that this final set could be a long and drawn-out affair.

### The implications for emerging markets

For emerging markets, we are witnessing the comeback of China and its financial markets, after a prolonged period of inferior returns. Since the launch of DeepSeek, confidence has risen and Chinese technology stocks performance has echoed the rise of the Magnificent Seven.

We’re seeing a mean-reversion effect, and we believe the current China rally has more legs to it, and that it will extend to emerging markets more broadly. The valuation support is immense and the earnings picture has also been supportive to the emerging market case since last year. Add to that the recent weakness in the US dollar and we have a ‘triple tailwind’, which makes us more constructive on emerging markets equities.

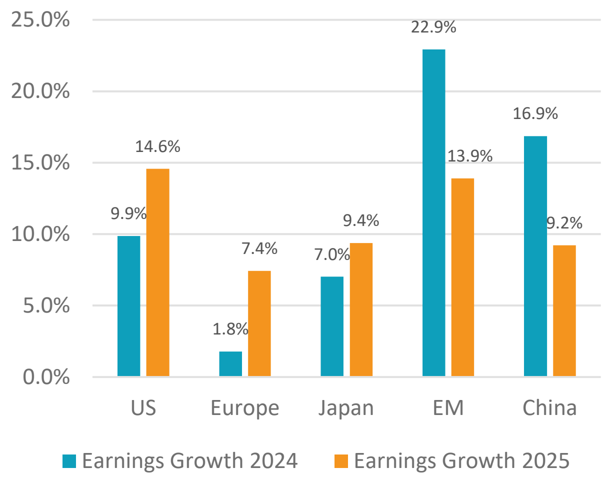
### The tariff issue

US tariffs are obviously a challenge for some countries, such as Mexico and some Asian nations. So far, though, China seems to be only mildly targeted by the Trump administration. Given the strong momentum and China’s renewed confidence, as well as the continued supportive economic measures from the Chinese authorities, it might be tricky to be underweight this vast country in a global emerging market portfolio.

### Strategic implications

We recently added to China in general, and to Chinese internet names in particular. We also continue to favor Korea, Indonesia and Vietnam, three countries where equites disappointed in the previous 12 to 18 months, but that have strong economic fundamentals. We dislike most other Southeast Asian markets, and also India, which is too expensive even after the recent correction and underperformance. We are underweight Brazil, where the central bank is in tightening mode to force fiscal prudency from the government and to fight inflation. We continue to be overweight Greece, Hungary, Poland and South Africa.

Earnings growth outlook for EM is stronger than DM




**Source:** MSCI, IBES, 31 December 2024

INTERVIEW

**Chris Berkouwer,** Portfolio Manager

# *"Diversification is not always a free lunch*

Chris Berkouwer is deputy co-lead portfolio manager of Robeco's flagship high-conviction Robeco Global Focused equity strategy. Here, he talks about his background in investing, and what works when selecting stocks from a global universe.

### What originally got you into investing?

I think my older brother Steven planted the seed with me. Back in the 1990s, he was trading options (over the land-line telephone!) as a way to make some money, which I thought was mighty interesting.

### What makes a good stock?

It's not simply the 'compounders', but in general I'd say reliable management (kind of an oxymoron, I realize) that knows how to set and beat expectations on a consistent basis. And remember, a good company is not always a good stock!

### What's your biggest lesson learned over the years?

Diversification is not always a free lunch. The very narrow market leadership in recent years has really crushed some portfolio manager careers that had bet against it. There's really no glory in being contrarian for the sake of being contrarian.

### Despite your style-agnostic portfolio, is there ever a tilt toward growth or value? Especially given growth stocks have had such a strong run in recent years?

For sure we sometimes lean more into the growth side of the spectrum, but not structurally. We're really disciplined in managing the portfolio toward a high free cash flow (FCF) yield, while being loyal to each sectors' core holdings. Within the team we have portfolio managers that naturally lean more into the growth/momentum camp, whereas given my coverage of 'old economy' sectors, I tend to favor (deep) value plays more. On balance, we keep each other in check.

### What is one of the successes that you've had as a portfolio manager team, as a result of stock selection?

Ninety percent of the alpha we've generated has been via bottom-up stock picking, across all sectors, which suggests we're doing the right things as a team. Everyone is really geared into the three pillars of our quality-driven process – return on invested capital, FCF and sustainability – and we all question new ideas on the basis of those, even if such ideas fall outside our scope of coverage. We also try to be grounded, so we look at new and existing holdings on a very level-headed basis, and avoid getting too carried away or emotionally tied to certain stock picks.

**Chris Berkouwer,** Portfolio Manager

# “*We’ll let Trump rage for his first 100 days and then re-assess the set of opportunities*

### What’s your view on the shift in investment sentiment toward sustainable investing?

I think it’s healthy to question both the merits and blemishes of ESG. Whatever your position is toward sustainability or impact investing, the outright demonization of ESG has nothing to do with investing. In the end it’s about using sustainability information to your advantage, to improve your chances of harvesting alpha for clients. Hence, you want as many valuable inputs as possible in order to make investment decisions. In that regard, ignoring material ESG factors simply does not make sense. I’m a big proponent of Alex Edmans’ ‘rational sustainability’, where we shouldn’t view ESG as a religion but as something that can either create or destroy value over the long-term.

### How do you view US equities currently?

Is a shrinking government and less regulation unambiguously positive? Honestly, I’m probably as torn on this as any other investor. Yes, deregulation helps, but it’s not as if, for example, US big tech didn’t outperform because of too strict regulation. I think the upside for deregulation is much more with Europe, which, by design, is not exactly meant to deregulate.

But should it do so, stocks will rally. Back to the US, Trump’s policies often conflict with one another, and that’s having large unintended consequences that markets struggle to digest. We also really dislike the close relationship Musk has with Trump, which is likely to end in tears. In any case, we’ll probably let Trump rage for his first 100 days in office and then re-assess the set of opportunities.

### Which regions, sectors or opportunities are most prominently reflected in your portfolio?

We don’t take outsized regional or sector bets, which sounds a bit boring, but it’s a key part of how we look at risk – to really let stock selection dominate alpha generation. Of course, we have thematic exposures in the portfolio just like everyone else, such as electrification, AI, GLP-1 and so on, but I’d say it’s fairly balanced across our cyclical and defensive holdings.

### What’s been your best investment ever?

In the strategy, Stanley Black & Decker (SWK US) stands out. We bought the stock really at the depth of the Covid crisis, when it traded below USD 80, and subsequently sold it at its peak of around USD 220 a little over a year later. Of course that was excellent timing, though admittedly sometimes it helps being lucky rather than smart!

### If you could meet any historical figure (dead or alive) who had a significant impact on the financial world, who would it be, and what investment question would you ask him/her?

Maybe first an anecdote. Once when I happened to be on an escalator next to Jamie Dimon, I asked him whether he ever considers his words before making public statements, given the market impact those might have (note: this was right after his famous “There is a hurricane coming” quote at the Bernstein conference in 2022). He replied: “I tell you, that’s who I am; as soon as I lose my authenticity, the rats would sniff it.” I thought that was brilliant!

Too many times, we as investors have to stomach silly role playing or Oscar-worthy fireside chats. Authenticity is key. Now in terms of what investment question I might ask to someone who has (had) market impact, whether it’s Buffett, Graham, Dalio or Lynch, I’d probably like to know how they determine conviction level. But also, what kind of question they would first ask a management team.

TRIP NOTES

**Yanxin Liu,** Portfolio Manager

# In San Francisco, it's keep calm and carry on

The cycle of innovation, fundraising and investment is alive and well in Silicon Valley but the challenges of a new era in trade, macroeconomics and geopolitics are edging closer.

## Tech town drowns out the noise with AI

The first thing I noticed after landing at SFO was that the billboards along the highway are all tech advertisements for Apple Intelligence, Salesforce, Agentforce, and many more. Entering the city, white Waymo AVs immediately caught my attention. From afar, you don't notice they are autonomous at all and it all looks very natural and smooth. Unfortunately, I did not have the chance to give it a try, as it requires locally issued US cards for payment. What I heard is that, as a passenger, you would not notice much difference. For now, Waymo is only available for a short ride in downtown San Francisco, while Uber is still far more accessible and remains the default choice.

Huge numbers of companies were participating at the Morgan Stanley TMT conference, both private and public, while keynotes from Elon Musk (only virtual this time) and Sam Altman were headline attractions. The unifying theme this year was, it's no surprise, AI. Topics ranged from AI infrastructure buildout, GPUs versus custom silicon, the current stage of large language model training and inference, enterprise data management, Agentic AI adoption and monetization, and more. Despite all the volatility we've witnessed in tech equities of late, especially post-DeepSeek, within the corporate world it's business as usual. Foundational models continue to be trained, scaling law still very much holds, money is ready to be deployed, while computing capacity is still a constraint. Hyperscalers are continuing their robust spending, while software companies are increasingly adopting AI tools to enhance internal efficiency. Externally, AI use cases are expanding, with a shift from proof-of-concept to real adoption at clients. Still, the market has been selling off viciously and investors are quickly reshuffling their cards.

Conference attendees heard opposing views on the sustainability of the current AI capex spend, depending on whether these views are based on a short-term or a long-term horizon. Beyond AI, another layer of complexity is the uncertainty around macroeconomics and geopolitics. TSMC is a perfect example of a company that is caught in the crosshairs of the tech cold war between west and east.

On the macro front, we see that analog semiconductor companies are still reporting a mixed environment for industrials, consumers and automobiles, and citing limited visibility of an end-demand recovery. Software vendors have not yet felt any direct impact from increased macro and trade uncertainty, but it's obviously on every executive's mind. Tech equipment companies with global supply chains are working out scenarios in terms of where to shift investment. They will eventually have to accept some increased costs as they are quickly running out of options with more countries facing the threat of higher US tariffs.

At the end of our second day, I had a walk up to the famous Coit Tower. It is a perfect place to enjoy a panoramic view of the city and watch the sun set. It was quiet and San Francisco Bay was calm with birds singing and the breeze soft and gentle. Just as we heard from companies at the conference, it was business as usual. But is it really? With a lot of uncertainties ahead, AI optimism alone may not be enough to keep the tech sector floating above the broader market.

# The US shake, rattle and roll could become a global positive

Global trade is being reorganized in rapid and chaotic fashion, creating uncertainty and fear in equity markets, but the urgent incentives to reach a new trading equilibrium could leave the world in a better place.

## Too much, too fast

There's no longer any consensus on the direction of travel for developed or emerging markets equities through the rest of the year and beyond. The prime cause of market uncertainty and growth fears, without analyzing all of President Trump's domestic and foreign policy moves in the extraordinary ten weeks since his inauguration, is the administration's mercantile approach to trade. There are two potentially positive outcomes from the US shock-and-awe tactics. First, the US's current approach is likely to be self-defeating and might serve to strengthen regional trading agreements and, second, Trump's 'reciprocal' concept, to be detailed on 2 April, could shake out countries with historical protectionist policies.

## A cautionary example

First, the indiscriminate protectionist approach will become a cautionary tale for the future, strengthening the case for free trade. Trump has targeted sectors where the US has no prospect of competing in the short, medium and even long term. A good example is the copper market, where tariffs on refined copper imports are being considered. The US is already well-placed, with domestic sources meeting 64% of US demand and the balance from imports.[1] The theory is that tariffs will spur domestic supply and reduce copper imports, which primarily come from allied (or previously allied) countries, namely Chile, Peru and Canada. The reality is however that copper is scarce, and remaining unexploited copper deposits in US states like Alaska will take years, perhaps decades, to bring into production. So, the immediate impact will be to raise input prices for US industry, including the defense sector, making US manufacturing less competitive. In the US, industrial metals including copper are already trading at a premium to global prices – an own goal for sure.

## Beyond retaliation

Second, beyond retaliation, which from the EU, Canada and China has been swift, the global response to US protectionism and isolationism has been to accelerate the move to a multi-polar trading world, with regional groupings consolidating ties to better resist US pressure. Notably, the EU is finally considering sharing the fiscal burden of defense investment, led by Germany, previously the most recalcitrant over forging fiscal links. The UK has also become more deeply engaged with EU allies for the first time since Brexit. Both these developments can strengthen Europe's economy. Existing free trade agreements like the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) could also be upgraded in importance as counterweights to the US and China, with some interest in the EU joining CPTPP,[2] following the UK, which joined in December 2024. In February 2025, China also re-affirmed its strategic partnership with ASEAN, which might not be a free trade deal, but at least is the basis for cooperation.

Ironically, India, which sees itself as ideologically aligned with Trump's mercantile approach to trade, and has long protected its own domestic markets, is now experiencing renewed pressure to open its economy due to Trump's 'reciprocal' tariff concept. Any bilateral deal with the US will be watched closely by other trading nations, which may seek similar terms or increased market access.

## To a new steady state?

There's an air of disbelief at the speed of change, and the damage from an extended trade war will be real. The OECD has already downgraded global growth estimates,[3] with the US, Mexico and Canada all set to suffer. However the new steady state for global trade that emerges after US policy stabilization may ultimately be a better place for global trade. In the meantime, agile equity investors will be able to find plenty of opportunities as the world re-aligns.

[1] Trump Opens Door to New Levy With Copper Tariff Probe – Bloomberg, 25 February 2025

[2] Why the EU should join the CPTPP – Singapore Straits Times – 13 March 2025

[3] OECD trims growth outlook as global trade tensions bite – Euronews 17 March 2025

# Staying on course for net zero


Transitioning to net zero is up to the market, but it is governments who pave the road, says Robeco Climate & Biodiversity strategist Lucian Peppelenbos.

## The new political backdrop

On 20 December a letter was sent by the US House of Representatives Judiciary Committee, asking 60 US asset managers about their involvement with the Net Zero Asset Managers (NZAM) Initiative and the engagement collaboration Climate Action 100+. The committee suggested there was a potential violation of antitrust laws and fiduciary duty. This triggered an exodus of asset managers. In response, NZAM is undertaking a review to ensure that the initiative "remains fit for purpose in the new global context".

## Changed landscape

At Robeco, we welcome the review announced by NZAM, as it will enable the group to sharpen its strategy toward 2030. Not only in the US, but also globally, the policy landscape is very different from 2020-21, when investors, corporates and governments had committed to net zero in amounts estimated at 88% of global emissions. By and large, governments have not delivered. Current policies are putting the world on course for a temperature rise of 2.9 degrees. The recent Climate COPs have failed to deliver meaningful progress, while leading jurisdictions like the EU are slowing down their green ambitions, and trade protectionism is impacting the uptake of green technologies. It is remarkable that, for the same period, net-zero-committed investors can report good progress. Most investors, including Robeco, report impressive figures on portfolio decarbonization in the order of 40% or more.[4] Clearly, this has not gone hand in hand with emission reduction in the real economy, nor with increased climate policy ambition.

## Governments need to pave the road

Effective mitigation of climate change needs a mission-driven government rising to the challenge. It is governments who pave the road for the market to craft, deploy and scale the solutions. For example, the development of the internet and digitalization relied on government funding and programs within the Department of Defense and NASA. Similarly, China deployed state entrepreneurship to develop global dominance in renewable energy and electric vehicles. With the right incentives instituted by governments, the market shows virtually unlimited ingenuity in creating innovations and scalable solutions.

## Let's get past the disillusion

Looking ahead, we believe that net-zero initiatives will follow a familiar pattern called the hype cycle. There was an initial peak of inflated expectations that the market could do it alone. This is followed by the phase we're currently in, disillusion, before progressing through a slope of enlightenment toward productivity. The NZAM review is an opportunity to advance this cycle toward productivity. The destination of net zero remains the same, but what changes are the tactics. For example, the initial focus on portfolio decarbonization has demonstrated clear limitations; it is now being amplified and reinforced by transition finance approaches based on forward-looking climate analytics.

We can only hope that the disillusionment is short-lived, as the imperative for climate action is only increasing. The renewable energy boom shows that net zero can work. More and more countries are decoupling economic growth from an increase in emissions.[5] Integrating climate risks into economic and fundamental analysis leads to better-informed investment decisions. At Robeco, we continue to be committed to carefully navigating the net-zero transition, managing both risks and opportunities, to the benefit of our clients and long-term value creation.

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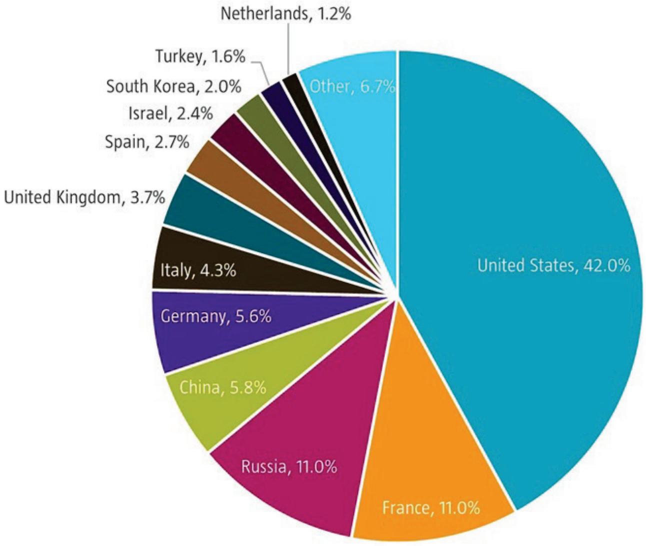
[4] By year-end 2023, assets managed by Robeco decarbonized 43.7% against the 2020 baseline

[5] See: https://ourworldindata.org/co2-gdp-decoupling

# War Dogs

The 2016 film War Dogs begins with David Packouz stating that war is an economy. The United States may have a trillion dollar trade deficit, which the new President wishes to rectify, but one sector in which the country does successfully export is defense. In the period 2019-2023 the United States accounted for 42% of world arms exports. It took share from the previous five year period, as Russia and Ukraine internally consumed weapons in the emergent conflict, and other countries such as Turkey, Italy, and Poland all grew their exports significantly. The shifting geopolitical landscape suggests that these shares may further evolve, as countries increase their spending – the EU average and current NATO target is 2% of GDP. Countries may both seek to substitute imports, and spend more efficiently as consumer technology is used in combat, as has been observed with the use of civilian drones in Ukraine.

### Share of world arms exports




**Source:** Stockholm International Peace Research Institute, 2025

For more stunning statistics, scan for the Robeco Thematic Equities team's Daily Sketch here

## IMPORTANT INFORMATION

Please visit the Robeco website
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