ROBECO
The Investment Engineers

Multi-asset market outlook

The share buyback's rise sees the dividend's demise

July 2025

General overview

US dollar weakness will please the US administration

Multi asset	1mo	3mo	YTD	1yr	3yr	5yr
Oil Index (USD)	9.4%	-5.0%	-2.3%	-6.7%	-4.0%	21.5%
Emerging Markets (LC)	4.9%	7.9%	10.8%	12.9%	10.4%	7.9%
MSCI World local currency	3.8%	9.5%	6.6%	13.7%	17.7%	14.7%
MSCI World (H, EUR)	3.5%	9.0%	5.9%	12.4%	16.0%	13.1%
Emerging Markets (UH, EUR)	2.5%	3.1%	1.7%	5.3%	5.5%	5.9%
Global high yield (H, EUR)	1.5%	2.9%	3.7%	9.6%	9.0%	3.9%
Global investment grade bonds (H, EUR)	1.2%	1.4%	2.8%	5.3%	2.7%	-0.9%
Global inflation-linked bonds (H, EUR)	1.1%	0.5%	1.7%	1.2%	-1.9%	-2.6%
GSCI Commodities (USD)	1.0%	-10.6%	-10.1%	-8.5%	-4.1%	16.7%
MSCI World (UH, EUR)	0.9%	2.6%	-3.4%	6.1%	13.8%	13.5%
Global Gov Bonds (H, EUR)	0.6%	0.6%	1.4%	2.9%	-0.2%	-2.6%
Cash (EUR)	0.2%	0.6%	1.3%	3.1%	2.9%	1.6%
Gold (USD)	0.1%	5.2%	24.4%	39.8%	21.4%	11.8%
EMD local currency (UH, EUR)	-0.5%	-0.6%	-1.1%	4.3%	4.0%	1.2%
EMD hard currency (UH, EUR)	-1.1%	-4.6%	-6.2%	0.9%	4.0%	0.7%
Global real estate (UH, EUR)	-3.7%	-6.3%	-8.2%	1.5%	1.1%	5.1%

Equities continue to brush off geopolitical concerns

> Investors put money to work in equities as risk premiums fell, trade deals continued to stack up, and EU governments committed to spend more on defense at the NATO summit.

> Oil surged in June, topping the table in US dollar terms, after US bombing raids attempted to end Iran's nuclear enrichment program. We observe that previously, the peak missile-launching hostilities generally coincide with a short-term peak in oil. Other commodities except precious metals continued their dismal run stretching back over three years.

> Emerging market equities continued to benefit from the weaker US dollar. South Korean stocks surged over 15% in June as political risk fell and the new prime minister targeted higher KOSPI index levels in a speech.

> Safe havens such as gold and rate-sensitive assets both struggled in the face of US rates staying on hold.

Source: Robeco, Bloomberg. Note Returns in Euros
All market data to 30 June 2025 unless mentioned otherwise

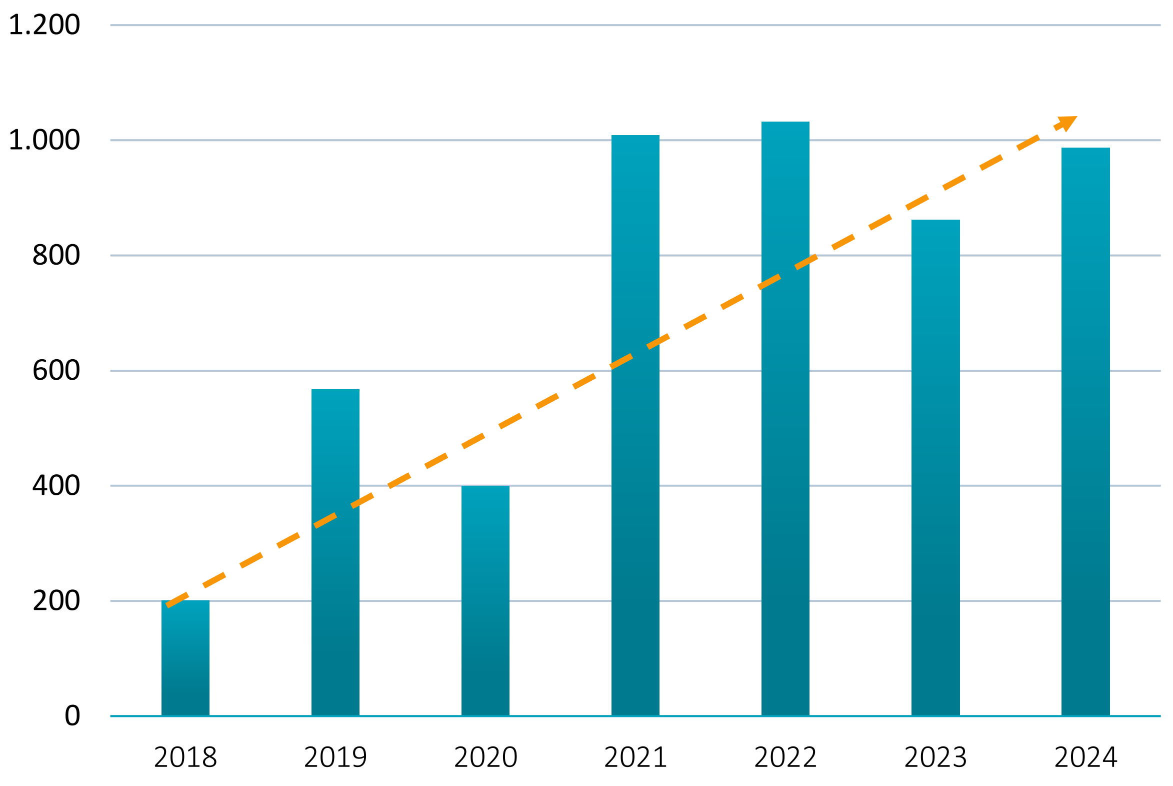
Theme of the month

The share buyback's rise sees the dividend's demise

Share buybacks set to become even more popular

- After spooking Wall Street and global business leaders, Congress moved to kill a so-called revenge tax that was set to raise taxes on dividends for foreign investors in US companies. This was a welcome reprieve for income focused investors.
- At a structural level, US companies have broadly increased their preference for share buybacks versus dividends since 2008. This is partly because share buyback programs are more flexible and often have finite timelines. It also puts less pressure on management teams from the uncertainty associated with other options such as investment or M&A.
- There is typically a very negative price reaction to any cut in the dividend – so companies are less willing to raise dividends after periods of strong earnings.
- The ratio between dividend yields and share buybacks can be dependant on individual country tax regimes. In the US, share buybacks are generally considered more tax efficient than dividends because of how they are taxed.

US share buybacks (USD in billions)



Source: Robeco, Bloomberg. *2025 share buyback yield for 2025 assumes that the rate of buybacks is continues at the same rate for the second half of 2025.
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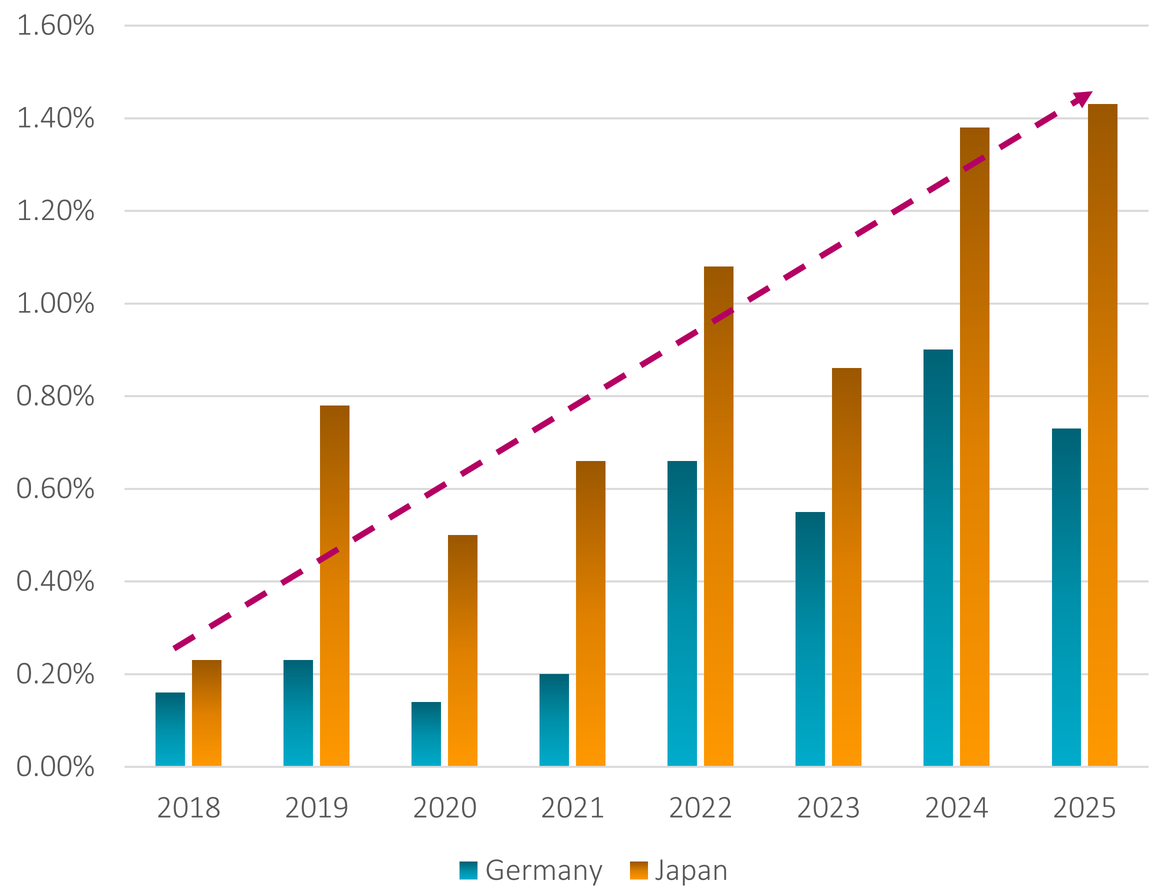
Positive momentum for rising share buybacks in Japan and Europe

> One of the conclusions from our 2024 capital market assumptions (Robeco 5-Year Expected Returns) is that European equities offer more attractive relative valuations versus other developed markets. More modest European valuations have supported a growth in share buyback programs in Europe.

> If European companies believe their share prices are structurally undervalued against other regions, it may make sense for them to continue to deploy their excess cash to buybacks. For now, buybacks have been concentrated in banks and energy companies, but this may start to spread to other sectors, as we see a more disciplined approach to capital allocation in Europe.

> Japanese companies accelerated share buybacks in April 2025 to a record level. This is perhaps a positive reaction to the request by the Tokyo Stock Exchange in March 2023 that companies do more to improve capital efficiency. Japanese companies' payout ratios subsequently rose to 67.4% in 2023. We may now expect higher dividends and higher share buybacks in Japan if this focus on capital efficiency continues.

Percentage share buyback yield in Germany and Japan



Source: Robeco, Bloomberg. *2025 share buyback yield for 2025 assumes that the rate of buybacks is continues at the same rate for the second half of 2025.
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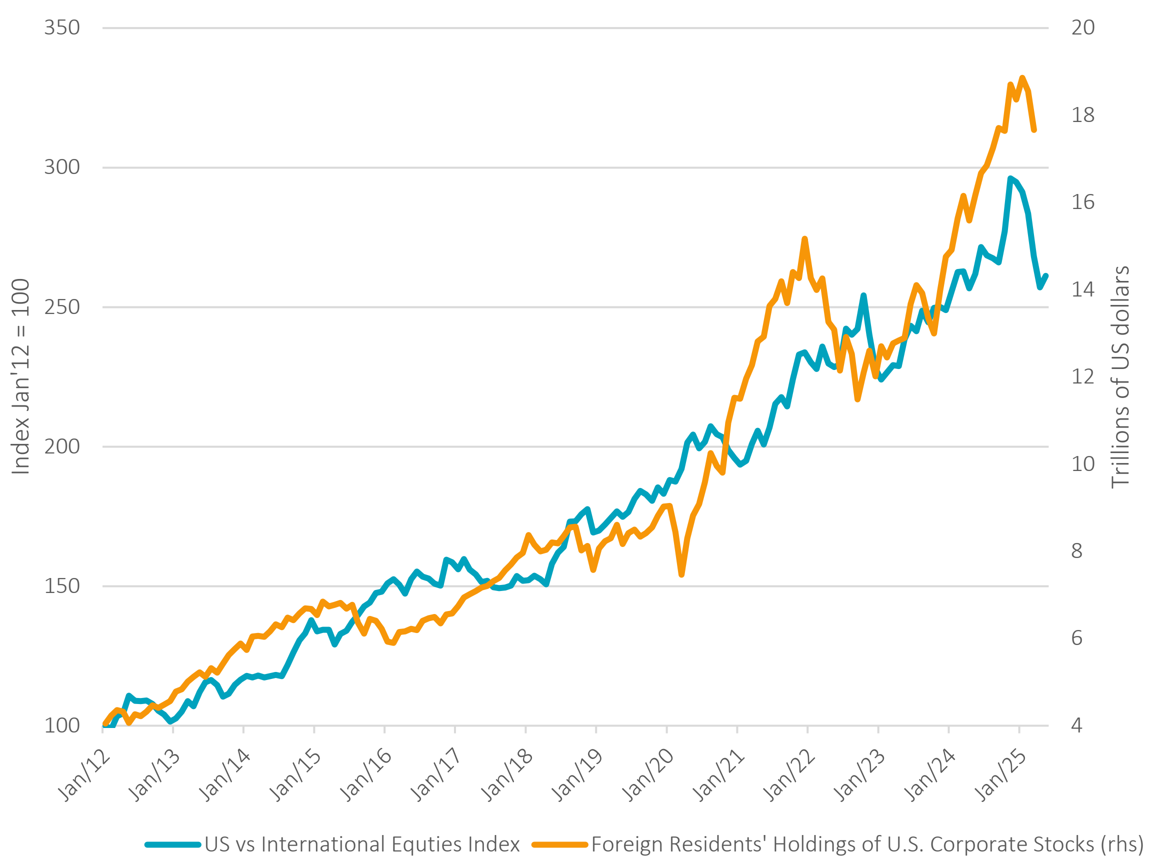
Section 899 would have made US equities less attractive

- After the weaponisation of the dollar at the start of the Ukraine war and Trump's aggressive tariff policy, US exceptionalism is under the spotlight like never before. Some investors have already started voting with their feet, as highlighted by a decrease in US foreign direct investment and a fall in the number of foreign holders of US equities.
- A dividend withholding tax for international investors as proposed under Section 899 of the 'Big Beautíful Bill' would have made US stocks less attractive. The section was removed as one of many compromises as it went through Congress, which was wary of potentially encouraging a structural shift away from US assets.
- The quite sudden repeal of the 'revenge tax' underlines the importance of investors not overreacting to initial Trump policy proposals, since they have a tendency to be watered down or scrapped, and are ultimately becoming less material.

International holdings of US stocks



Source: Bloomberg, Fed, Treasury International Capital System Securities Long Term (SLT) data.
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Theme of the month

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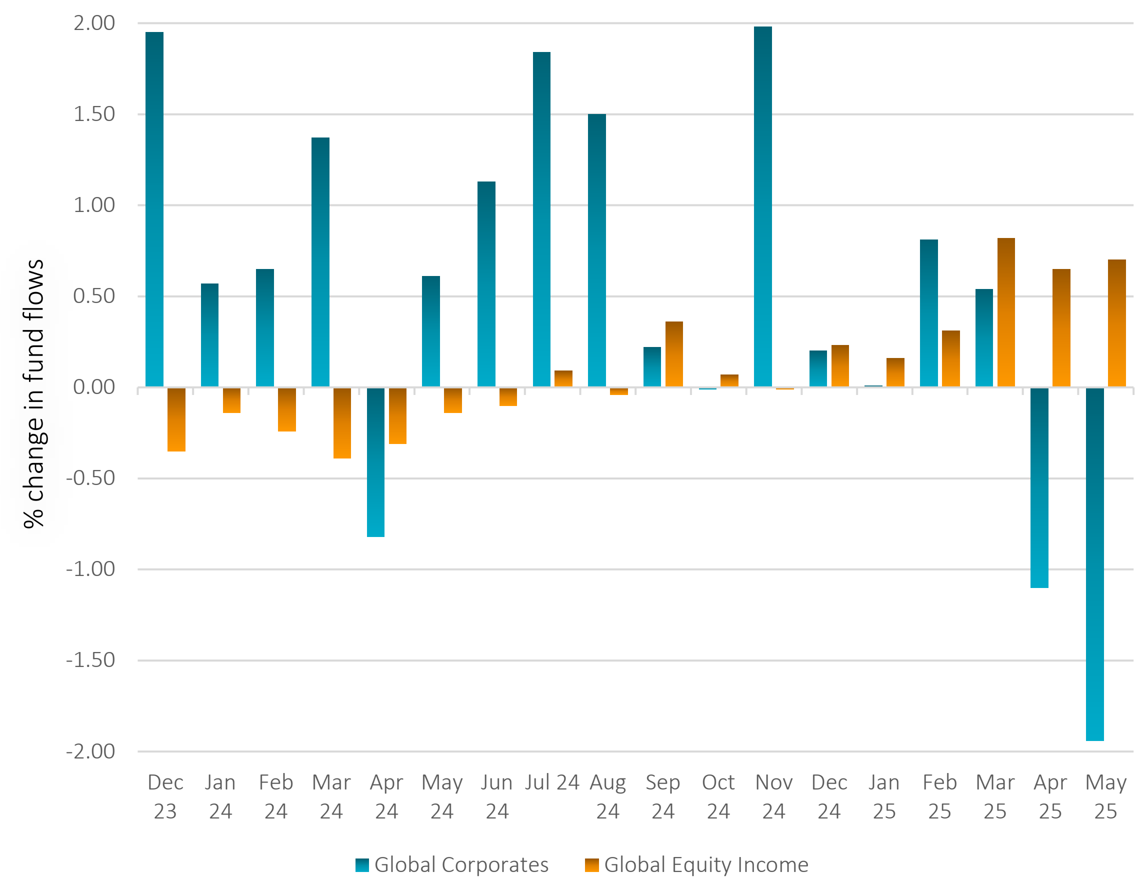
Touch choices ahead for income-seeking investors

- For investors seeking a regular cash payout (such as retirees), bond coupons and dividends are seen as appealing. As interest rates and interest rate expectations have started to fall, we see the migration from credit to equity income as shown by fund flows over the past 18 months.
- At this stage of the market cycle, income overlay strategies such as covered calls are starting to look more attractive. While this does reduce upside, it can enhance income, offer more stable return distributions and provide some downside protection.

Percentage change in fund flows – global corporates vs. equity income

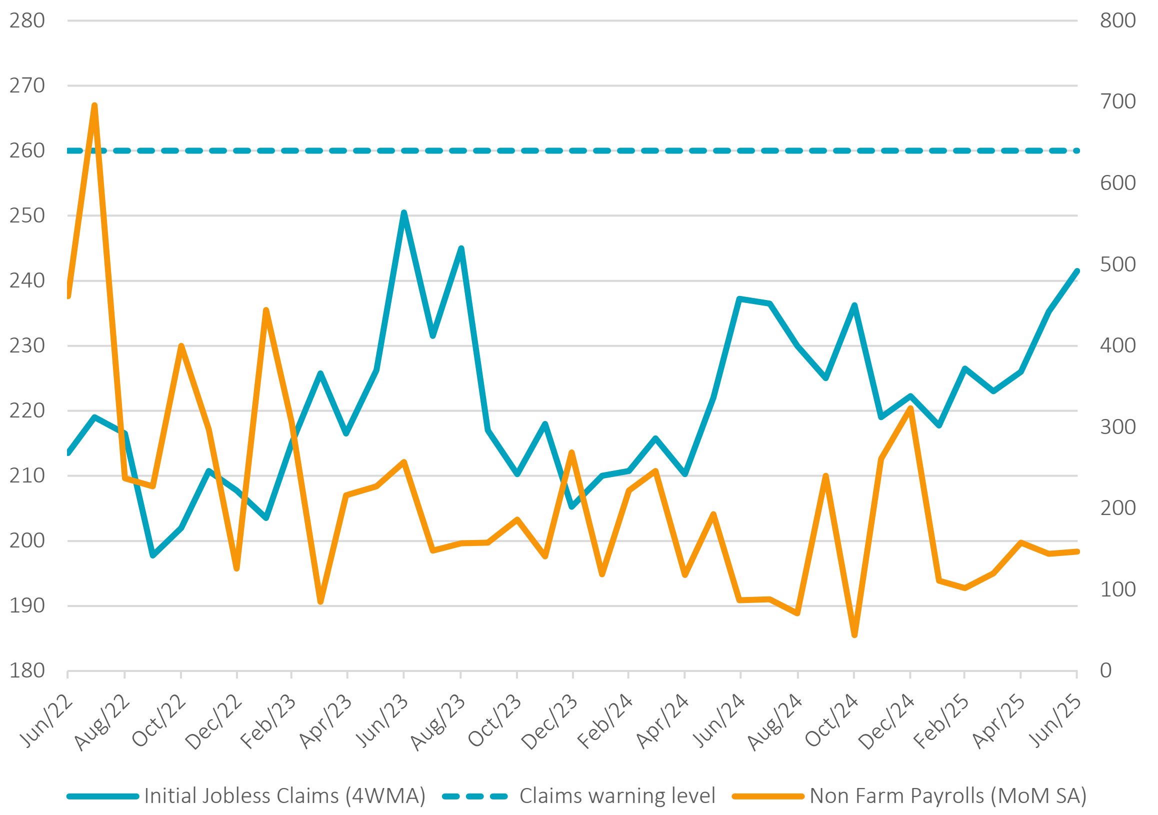


Source: Robeco, Lipper fund flows
All market data to 30 June 2025 unless mentioned otherwise

Economy

US labor market not giving the Fed aircover to cut

US Initial jobless claims trend remains stable, and payrolls are steady



Full employment will support the US economy and rest of world trade

- The US interest rate policy setting committee (FOMC) has steadfastly refused to cut rates in the face of pressure from Trump, because employment remains solid and inflation is 'sticky'. This implies that the US economy is running hot, with low unemployment. The tax cuts in the 'Big Beautiful Bill' that were passed on 4 July will add heat to the high-pressure economy.
- Coupled with reduced immigration to counteract the rise in wages, and an unknown tariff impact, the level of interest rates appear appropriate, according to FOMC Chairman Jerome Powell. That said, he has sounded more dovish in recent speeches.
- US companies are not laying off workers yet, but the DOGE cuts to government staff will start to feed into the data in the next few months. If US consumers have a job and don't have to move home, then their spending will hold up in the face of tariff-induced price rises.

Source: LSEG Datastream, Robeco
All market data to 4 July 2025 unless mentioned otherwise

Economy

Europe increases fiscal spending

NATO members commit to increase defense spending

Country	Debt to GDP 2024E (%)	Defense spending %GDP 2030E	5 yr CAGR (%)
Germany	64	3.5	12.9
UK	101	2.9	7.7
France	113	2.8	9.3
Italy	139	2.0	9.9
Poland	55	5.0	7.2
Turkey	26	2.8	9.0
Netherlands	43	3.9	12.6
Spain	102	2.0	11.8
Sweden	33	3.5	12.7
Norway	43	3.0	9.3
Denmark	28	3.2	9.1
Belgium	104	2.0	11.6
Romania	57	3.2	10.1
Greece	151	3.1	3.0
Finland	83	3.0	7.6
Czech Rep	43	3.0	10.2
Europe (NATO)		2.9	10.0

Source: NATO, IMF, JPMorgan, Robeco

Higher spending on defense equipment and innovation

- The recent NATO summit saw almost unanimous support to increase government spending on defense, although some members failed to commit to the initial 3.5% target. Historical data gives detractors evidence that the overall economic effect of this additional spending will be negative.
- In our view, this is a very blinkered approach, given the underspending on defense by European governments, and it takes little account of secondary effects. There will be direct positive effects on the defense and aerospace, manufacturing and software industries.
- Wider economic benefits will come from reduced spending on even more unproductive sectors in the economy, the transfer of innovations across industries, and greater self-sufficiency in energy. Interestingly, many of these elements align with the Draghi report published in September 2024.

Source: Robeco
All market data to 4 July 2025 unless mentioned otherwise

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