

Press Release

Robeco publishes Expected Returns 2021-2025: 'Brave Real World'

Rotterdam, 29 September 2020 – Robeco has published its tenth annual Expected Returns report (2021-2025), a look at what investors can expect over the next five years.

Robeco foresees a protracted period of negative real interest rates, meaning their impact on the relationship between economic fundamentals and asset price performance and the consequences for multi-asset allocation will be critical. This is a time of radical transition, and volatility will remain elevated. Yet there are signals to be found amid the static. After all, financial markets have been confronted by pandemics and prolonged episodes of negative real interest rates before.

Risk taking will be rewarded in the next five years, especially as some traditional safe havens will eventually be deemed risky as well. For most risky asset classes, the expected reward for the volatility risk is substantial, leading to attractive Sharpe ratios. Despite elevated risk premiums, absolute asset returns will remain below their equilibrium values.

Government bond yields have only limited room to increase. Ten-year US Treasury bond yields are capped at 1.5% for the next five years, and, in Germany and Japan, as low as 0.5%. This includes a slight increase in interest rates towards the end of the five-year period as growth starts to accelerate. This means that investors in government bonds will experience negative nominal returns in all main markets. A global government bond portfolio could yield an average euro-based return of -0.75%. Investors in the investment grade segment of the market may gain an above-average credit premium of 1% over the next five years. This results in an outlook of 0.25%.

Robeco expects equity returns to be below their long-term estimates, but risk premiums remain very attractive relative to safer assets such as government bonds. Developed equities are slightly overvalued, mainly because of stretched US equity valuations. Their valuation therefore remains negative relative to the steady state. Nevertheless, its expected return is 4.75% per year. Robeco has upgraded the return forecast for emerging markets. Stronger inflation surprises in developed markets have often coincided with emerging markets catching up on an earnings per-share basis versus developed markets. This results in an expected return of 6.75%.

The preoccupation of financial markets will shift from central banks to governments. This will bring about higher levels of asset and foreign exchange volatility: politicians offer guidance and policy implementation less smooth than that from their central banking counterparts. A key question to consider in scenario thinking is whether policymakers will succeed in getting real rates low enough for a substantial period of time to facilitate a self-sustaining economic recovery. Robeco believes they will. But their success will depend, more than ever in post-war history, on close collaboration between the monetary and fiscal authorities.

Peter van der Welle, Strategist Multi Asset at Robeco: *"In last year's publication we penciled in a recession. Obviously, we did not envisage that the Covid-19 crisis would be the instigator of this. We expect asset returns to remain below their long-term historical averages over a five-year horizon, mainly caused by the low interest rates. The macroeconomic volatility will only start to fade in 2021, but the effective cooperation between central banks and governments will lead to a successful recovery. The accompanying increase in inflation rates combined with low bond yields leads to our 'Brave real world', looking to overcome the challenges of achieving a sustainable, greener future."*

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[Laurens Swinkels](#), Researcher at Robeco: *“In line with tradition, in the tenth edition of this report we look beyond short and mid-term events and provide investors input for portfolio construction, as well as a deeper understanding of the markets in which they invest. A notable shift in this year’s report is our upward revision of expected returns on global equity markets, because we have faith in the coordinated response of governments and central banks to resolve the economic downturn in the coming five years.”*

Expected returns 2021-2025		
	5-year annualized return	
	EUR	USD
Bonds		
Domestic AAA government bonds	-1.75%	-0.25%
Developed global government bonds (hedged)	-0.75%	0.00%
Global investment grade credits (hedged)	0.25%	1.00%
Global corporate high yield (hedged)	2.25%	3.00%
Emerging government debt (local)	2.00%	3.50%
Cash		
	-0.50%	0.25%
Equity		
Developed market equities	4.75%	6.25%
Emerging market equities	6.75%	8.25%
Listed real estate	3.00%	4.50%
Commodities	5.00%	6.50%
Consumer prices		
Inflation	1.75%	2.00%

Source: Robeco, September 2020. The value of your investments may fluctuate and past performance is no guarantee of future results.

In addition to the five-year outlook, the report also covers five special topics, related to the theme: ‘Brave real world’:

- [There is more to factor investing than Fama-French’s five factors](#)
- [Interest rates – don’t be so negative](#)
- [Carbon pricing: asset allocation and climate goals](#)
- [Money for nothing, inflation not guaranteed](#)
- [Trends investing: is skewness in equity returns a blessing in disguise?](#)

The full report is available upon request, or can be downloaded here: <https://www.robeco.com/en/themes/expected-returns/2021-2025/>

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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.