Press Release

Robeco publishes its outlook for 2020: 'A Tale of Two Scenarios'

Rotterdam, 12 November 2019 – In its annual outlook, Robeco expects the economic expansion to last a little longer and the equity bull market to enter the last leg of a near decade-long climb. But what if we are wrong? The potential outcomes are binary, with no middle road.

Robeco believes that the events that made financial headlines in 2019 – Brexit and trade wars – to be less prominent in 2020. The global economic cycle is likely to be extended just slightly more in 2020. Signs that manufacturing PMIs are stabilizing and will improve further out have increased and financial conditions will remain favorable. This is mostly due to the continuous loose monetary policy by central banks around the globe. There will be no hard Brexit and what happens in the meantime should be considered noise. There will be no comprehensive trade deal either, but any slimmed-down version is enough to bring back some business confidence and hence capital expenditures.

The US economy is unlikely to slip into a recession as employment, consumer spending and services remain resilient. A recession is more likely after 2020. China's GDP growth is set to slow further. Demographics, high levels of corporate debt and the transition from an investment-led economy to a consumer-led one make structurally lower growth rates inescapable. For Europe, the outlook for GDP growth remains subdued. Germany is grappling with the global manufacturing slump and lower export growth, partly related to the US-China trade war. As a result, GDP growth in 2020 will be below 1%. Other major Eurozone economies, like France and Spain, will record better growth, albeit below trend as well.

But what if we are wrong? There's no middle road scenario. If things turn sour, an above 20% fall of the equity markets is not unthinkable. In this alternative scenario, the path to a US recession is irreversible as central banks are behind the curve. Manufacturing will not pick up and instead cause spillovers to other sectors. Corporate earnings will weaken further, causing defaults among the lowest-quality companies and spreading from there. Unemployment will start to increase and consumer spending will drop, causing GDP to shrink. Central banks will need to ease as much as possible.

Fabiana Fedeli, **Global Head of Fundamental Equities**: "*Investors are increasingly uncomfortable overpaying for arguably crowded trades, whether from a style or regional perspective, and are ready for a change. They just need a trigger. Our base case scenario – with no hard Brexit and a slimmed-down version of a US-China trade deal; sufficient to bring back some business confidence, capital expenditures and corporate earnings growth – makes the case for equities outside of the US compelling. It also calls for a rotation into value.*"

Jamie Stuttard, **Head Global Macro Fixed Income**: "*High yield bonds look less impressive from a risk-return perspective compared to other risky asset classes, with spread widening often already starting in the later stages of the economic cycle. The same holds true for investment grade credits, but at least some of these have the ECB on their side. Government bond yields should grind higher as economic conditions improve, with central banks unwilling or unable to ease more. That said, we do not expect an end to extremely low or negative yields any time soon.*"

Jeroen Blokland, **Head of Multi Asset**: "*We expect stock markets to reach new highs before struggling later. Equities tend to move up until very close to a recession, and improved economic growth should translate into renewed earnings growth.*

Press Release

Developed market and emerging market stocks are expected to outperform other asset classes but the regional allocation in equity portfolios is likely to look very different as the case for equities outside of the US is compelling."

The full report is available on request, or can be downloaded here: www.robeco.com/outlook-2020**.**

Media enquiries
Robeco
Corporate Communications
Office: +31 (0) 10 224 2241
Email: cc@robeco.nl

About Robeco

Robeco is a pure play international asset manager founded in 1929. It currently has 17 offices worldwide and is headquartered in Rotterdam, the Netherlands. Through its unique integration of fundamental, sustainable and quantitative research, Robeco is able to offer both institutional and private investors an extensive selection of active investment strategies, covering a broad range of asset classes. As at 30 September 2019, Robeco had EUR 199 billion in assets under management, 72% of which were institutional. Robeco is a subsidiary of ORIX Corporation Europe N.V. which had assets under management of EUR 313.9 billion as at 30 September 2019. More information is available at www.robeco.com.