Welcome to negative rates

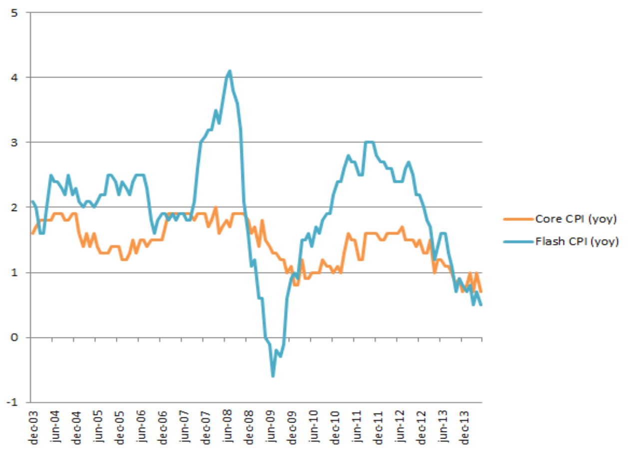
- Unprecedented action ushers in new era
- ECB leaves door open for quantitative easing
- Macroeconomic outlook: low inflation prompts moves
- Asset allocation: we still favor risky securities

Topic of the month: a new era for Eurozone rates

In an unprecedented move for a major central bank, the European Central Bank (ECB) switched to a negative deposit rate, albeit of a modest minus-10 basis points. The ECB also lowered the refinancing rate and the rate on the emergency lending facility. The policy rate corridor has been made into a symmetrical minus 0.10%; plus 0.15% and plus 0.40% respectively, from an asymmetrical 0.0%, plus 0.25% and plus 0.75% previously. Rather than receiving interest, banks will now have to pay a charge of 0.1% on any funds deposited at the central bank that exceed the reserve requirement.

It could be argued the ECB has switched to a Negative Interest Rate Policy (NIRP), a modest step into the dark compared to the Zero Interest Rate Policy (ZIRP) seen in Japan and the US. Additionally it has formalized the ending of the weekly liquidity-draining operations; announced that full-allotment refinancing operations will continue until the end of 2016, and introduced a new instrument, the TLTRO (Targeted Long-Term Refinancing Operations). The central bank has left the door open to future purchases of simplified and transparent asset-backed securities (ABS). With all these measures the ECB fully ratified market expectations and surprised slightly on the upside. Still, this was more scattergun than bazooka, as the *Wall Street Journal* aptly put it. The euro strengthened slightly on the news but later weakened.

Eurozone Flash CPI has fallen to 0.5%



Source: Bloomberg, Robeco

The ECB did not enter into a program of generalized quantitative easing (QE), which would have been a true 'shock and awe' approach, though it has left the door open for it. Interestingly, it has lowered its inflation forecasts. In the last quarter of 2016, the ECB's forecast horizon, inflation is expected to be 1.5%. As the ECB's target is generally quantified as 1.75% ("below, but close to 2.0%") the central bank is explicitly admitting that it won't fulfil its mandate over its own forecast horizon. This sets a remarkable precedent as far as we are aware, and clearly indicates a bias towards further easing, in this case – inevitably - generalized QE.

Nevertheless, we still think a policy switch towards generalized QE is unlikely. Disinflationary developments in the Eurozone have surprised on the downside, with inflation reaching 0.5% in May, forcing the ECB to act. However, Eurozone Purchasing Managers Indices (PMIs) suggest that the second quarter will show the strongest growth in three years. With a gradually strengthening economy, deflation is unlikely, and if it does materialize in the coming months, it is likely to be perceived to be of a temporary nature. In our view, it is unlikely that inflationary expectations will become destabilized with a clear recovery underway. Temporary deflation isn't a worry in a strengthening economy. The policy mix in the Eurozone is also changing, with austerity on its way out, which will support the recovery further.

The ECB has repeatedly expressed frustration about the strength of the euro and this has been a clear motive behind the recent policy moves. Now that the US economy is showing a strong rebound after an unusually weather-related weak first quarter, as illustrated by the ISM Manufacturing index for May of 55.4 (where figures above 50 represent economic expansion), tapering will remain on schedule. We can expect more talk about the timing of the first interest rate hike in the US, and the dollar will strengthen as a consequence.

All in all, the measures by the ECB are a mild boost for risky assets. Although it could be argued that too much attention is being focused on monetary policy, and real economic progress could much more easily be reached through fiscal policy, investors will be comforted by the clear expression of commitment to QE should the necessity arise.

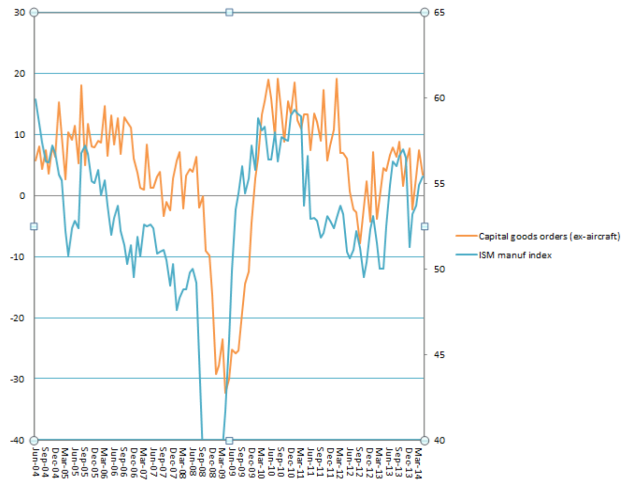
Macroeconomic outlook: low inflation prompts action

Surprisingly low inflation forced the ECB into decisive action, though forward-looking indicators suggest that the Eurozone economy will strengthen further. Additional monetary stimulus isn't particularly urgent at this stage of the business cycle, but neither would it do any harm. The US economy will rebound strongly, now that the weather is improving. Chinese policy makers are quietly stepping up stimulus and the Chinese economy appears to be stabilizing. Geopolitical risks have diminished markedly. The presidential elections in Ukraine went well and the new president appears to be mutually acceptable to the Western powers and Russia.

US: after a severe winter, the economy is bouncing back

Severe winter weather led to a (revised) contraction of the US economy of 1.0% in the first quarter. But now that the weather has improved, the economy is rebounding solidly. According to Markit, the manufacturing and particularly the services PMI improved further in May. After a striking non-farm payroll increase in April of 282,000, payrolls rose further with a healthy 217,000 jobs added in April, finally passing their pre-recession peak. Unemployment remains unchanged at 6.3%. In its Beige Book the US Federal Reserve (Fed) said that the economy expanded at a modest to moderate pace in May. We expect the pace of tapering under these conditions to remain unchanged.

US manufacturing shows further improvement



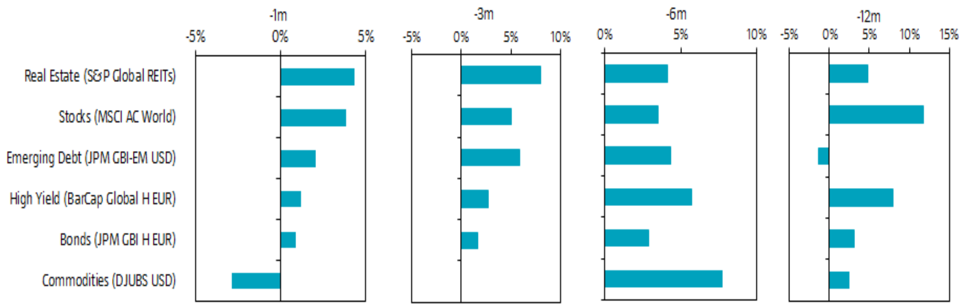
Source: Bloomberg, Robeco

China: stabilization of growth is likely

The PMI from HSBC and Markit rose in May from 48.1 to 49.4, its highest level in four months, indicating a stabilization of the Chinese economy. The state's official PMI reading also rose, reaching a five-month high of 50.8. Although Chinese President Xi Jinping has declared that the nation has to adapt to a slower growth rate, the Chinese government has announced it will cut reserve requirements for some banks and boost support for small businesses. Moreover, the Ministry of Finance has called for faster spending of budgeted funds. Our assessment is that the Chinese government is quietly stepping up policy easing to ensure that the official growth target of 7.5% will be met, or in any case be undershot by only a small margin.

Asset allocation – Risky assets remain our favorite in low volatility environment

Performance of asset classes (gross total return) – real estate assets are again flavor of the month

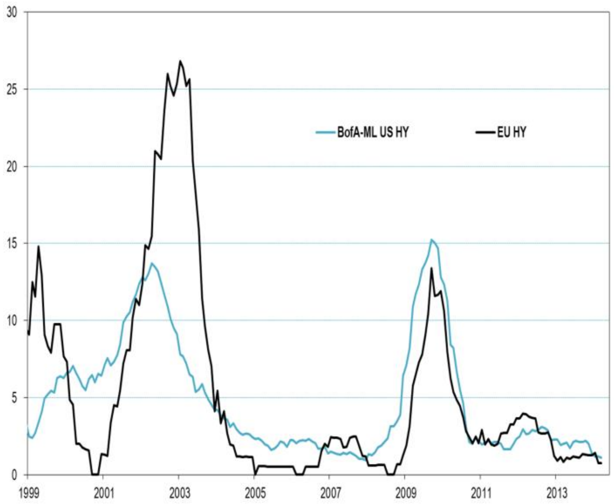


Source: Thomson Reuters Datastream, Bloomberg, Robeco

High yield remains our favorite, but vigilance is needed

We retain our positive view on high yield compared to government bonds, as central banks in developed markets continue to worry about the lack of inflation, indicating that they remain in easing mode. Therefore, the search for yield continues in a market that seems (re)assured of central bank forward guidance. Also, the sluggish recovery and benign inflation remain a positive environment for high yield. Appetite for the asset class is healthy, although figures from the Exchange Traded Fund (ETF) market suggest some deceleration in inflows. Returns in May on high yield were relatively modest compared to other risky assets at 1.2%. Spreads compressed further, and are now clearly below the historical average spread. Nevertheless, low spreads seem justified by historically low default rates of 1.53% - well below the global average of 4.59% since 1998 - while recovery rates remain high. However, the high valuations in combination with subdued volatility in the high yield market (and risky assets in general) seem to indicate some form of complacency among investors. The one-way direction of the high yield market fails to acknowledge the fact that risk is two sided. We remain vigilant because of several developments that increase the vulnerability of the asset class in the medium term. First, investors are willing (and increasingly so) to pay a relatively high price for additional carry, pushing up valuations. Second, leverage on high yield balance sheets is increasing. This does not pose an immediate threat so long as cash flows remain healthy and capital market rates are subdued. However, refinancing risk could emerge if capital market rates increase more notably and the rollover risk of highly leveraged companies becomes pronounced. Third, covenant lite high yield issuance has surged and issuance is increasingly being used for M&A purposes or share buybacks, and thus is not contributing to generating new cash flows for the firm (i.e. loan repayment capacity).

Default rates for high yield remain low



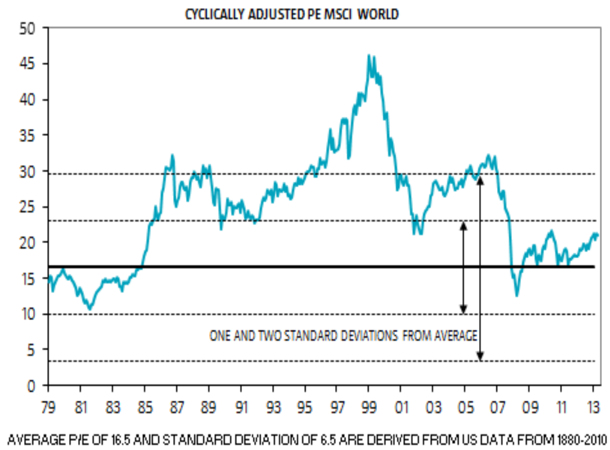
Source: Bloomberg, Robeco

For investment grade credits, we maintain the view that, when corrected for risk, the yield on high yield remains more attractive than the ultra-low rates that investment grade offer. Yields in the euro investment grade market are now even below those of a global government bond index. Neither the yields nor the spreads are looking relatively attractive to us. The spread component has already incorporated a lot of good corporate balance sheet news. Downside risk has become more substantial as the recovery in the periphery looks promising, but still has a long way to go and won't be without a glitch. Higher credit spreads that may ensue if banking stress test results disappoint later this year could also shift market sentiment.

We remain optimistic about equities

Equities posted a strong month, with a 3.9% return for the global market index, which is quite unusual for May. The two major short-term risks for equity markets that were seen in April - the Ukrainian crisis and the deceleration of growth in China - have developed favorably. The election of the moderate Petro Poroshenko as president of Ukraine and his recognition by Russia could be vital for further de-escalation of tensions. Market indicators show the conflict in its current form is not at the forefront of market interest any more. Leading economic indicators in China showed that the recently announced stimulus packages are having an effect, as the Chinese economy showed very modest expansion and new orders rose more strongly. Although the longer-term risk of a slowdown has not disappeared, there is reason to be more constructive on China in the medium term. With central

Global cyclical adjusted PE: Stocks expensive but not overvalued



Source: Datastream, Robeco

banks still in easing mode and major event risks seemingly abating, the equity market has tailwinds again as we enter the summer. Judging from low volatility and the strong consensus about risky assets, the risk remains that the market is getting too complacent about the benign environment and will be caught by surprise later on.

Low capital market rates support profit margins

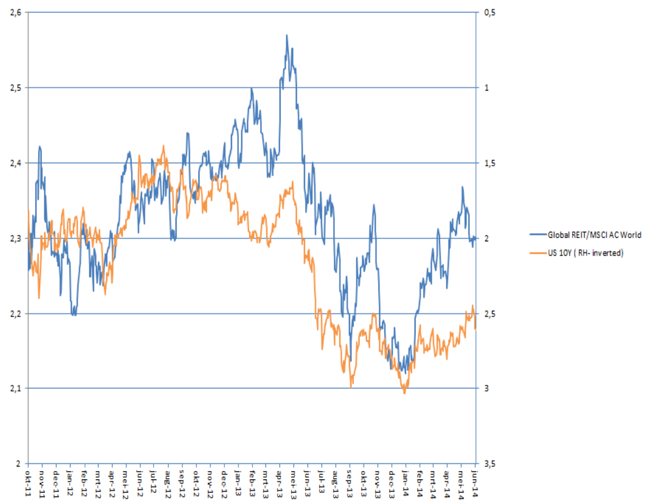
Earnings expectations from analysts have in general been too optimistic for the year, although recent earnings revisions on a 3 month basis for the US continue to show more earnings upgrades compared to downgrades last month. The recent decline in capital market rates and a pickup in wage growth that is still in its infancy will continue to support the average profit margin for companies belonging to the S&P 500, which has passed its peak level of 2007 and still remains strong at 9.4%.

Given our view of an ongoing recovery in developed markets, we doubt whether current profit margins are sustainable in the near term. Although there is still ample slack in the labor markets of developed economies, wage growth could pick up more notably in the near term as the US economy strengthens further. Rising interest rates, expected later this year, pose a lesser threat for margins as companies have managed to lock in low rates and are less leveraged, but they will no longer be a boon for profits. We therefore continue to expect profit margins to move sideways as accelerating economic growth leads to higher capital expenditure, while low refinancing risk and the virtual absence of labor pricing power should sustain high margins for longer.

Real estate has a tailwind

Real estate was a clear outperformer within risky assets this month, with a monthly return of 4.4%. Improved sentiment towards the more conservative part of the risky asset spectrum has sustained real estate performance since the start of the year. The unexpected rally in Treasury rates is clearly one of the driving factors behind this performance. The Japanese market was a strong performer as vacancy rates point towards higher future rental prices. Also, easing measures by the Bank of Japan (BoJ) later this year could benefit Japanese REIT investments.

REITs outperform equities as interest rates decline



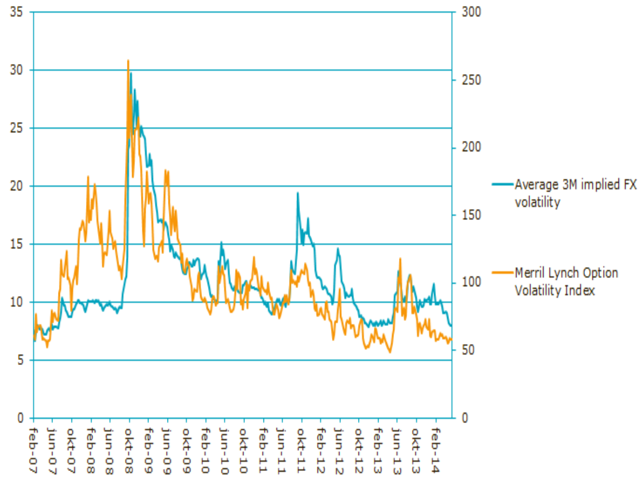
Source: Bloomberg, Robeco

Given our expectation for rising interest rates as the economic recovery in developed markets picks up pace, we remain underweight in real estate compared to equities, although momentum and sentiment will remain quite positive for the real estate market in the short term. However, from a valuation perspective, real estate remains expensive compared to equities, especially in the US. This valuation gap is compensated to some extent by higher dividend yields. Given the still-high valuations of real estate compared to equities and its relatively high interest rate sensitivity, we remain underweight real estate compared to equities.

Emerging market debt rally does not correlate with fundamentals

We remain underweight in emerging market debt (EMD), favoring high yield instead, because the cheaper valuation of EMD does not compensate for the medium term currency volatility risk. EMD again generated a positive monthly return, helped by improving investor sentiment towards the asset class and less currency volatility. Momentum for emerging market currencies also improved on the back of lower volatility in the US Treasury market. Fed President Janet Yellen has expressed her concerns about the slack in the US labor market, signaling that rates will remain low for a considerable period. The tapering path of Treasury purchases for the Fed remains well anchored.

Emerging market currency volatility is subdued as US Treasury market remains calm

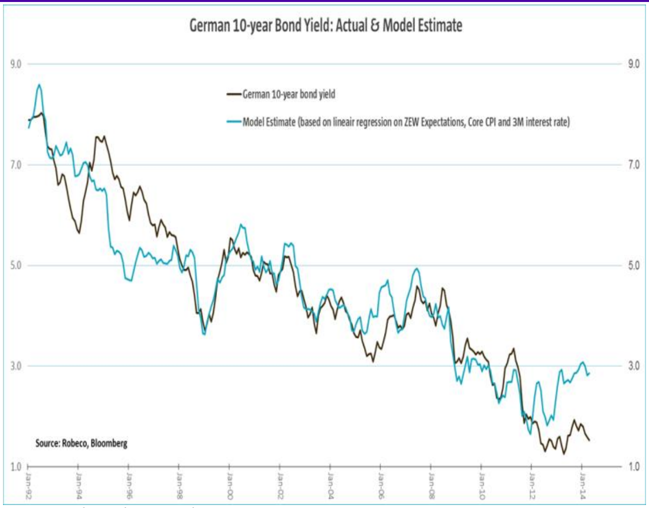


Recent rate hikes in major emerging countries have improved the carry component. However, we think sentiment and momentum will not hold up in the longer term as we are not convinced that there will be a structural improvement in emerging market economies in the medium term. This leaves EMD at risk as global interest rates will eventually rise on improved growth prospects in the US. From a fundamentals viewpoint, the recent rally seems overdone. Current account deficits as a percentage of GDP are below the levels seen in previous downturns, leaving countries vulnerable to external funding.

Also, the latest leading producer confidence figures suggest that the deceleration in economic activity versus developed markets has not ended. This is partly the consequence of the recent rate hikes as seen in Brazil, Russia, South Africa and Turkey to defend currencies from further depreciation. Although further rate hikes are not on the cards, inflationary pressures are not abating and will cause downward pressure on currencies further down the road. Political risk has not vanished either, although election outcomes have been benign and not proven to be a trigger of renewed volatility thus far. Strikes in South Africa, tensions between Russia and Ukraine, and the recent coup in Thailand are indications that necessary reforms to enhance growth will be slow and uncertain, especially during an important election year. Emerging market policy makers thus have the complex task of managing a tricky balancing act between external and internal stability. We expect continuing divergence within emerging markets according to differences in export orientation, current account balances, fiscal and monetary policies, and political stability.

Government bond markets will face headwinds as growth strengthens

The German 10-year bond yield is still well below fair value



Source: Bloomberg, Robeco

We remain negative on government bonds as we expect nominal rates in developed markets to rise later this year, although we are less certain this will happen in the coming months. From a valuation and macroeconomic perspective, the outlook is clear; rates should go up. Inflation numbers have been (too) benign in developed markets, with consumer price inflation well below the mandates of central banks in the Eurozone and US. The action by the ECB may well push inflation (expectations) up again. Also, real rates in the market are too low when compared to the strengthening growth in developed market economies. However, momentum and sentiment are likely to keep rates in the current range in the near term. The strength of the bond rally has surprised as there seems to be no clear reason for this, leaving a mixture of investor positioning, safe haven flows, speculation about ECB rate action and continuing disinflation in the Eurozone as explanations for the shift in sentiment towards government bonds. As the overwhelming market consensus at the start of the year was for rates to go up, good macro news appeared to be no news. With improving macro numbers already being discounted in bond market positioning, further upward pressure on rates remains absent. Also, safe haven flows remain a factor as the conflict in Eastern Ukraine has not been solved, although the market seems to worry less about ongoing events in the country than it did in March/April.

The ECB did not disappoint on 5 June and has acted as the market expected, with a rate cut of 10 basis points and the revolutionary introduction of a negative deposit rates for banks at minus 10 basis points. Also, it launched a new 'targeted' LTRO (TLTRO) amounting to EUR 400 billion to increase bank lending to businesses in the Eurozone and (re)committed to consider purchasing Asset Backed Securities. Although the central bank stopped short of fully fledged QE, ECB President Mario Draghi said "within our mandate, we are not finished here". This will build market expectations for further QE and may leave capital market rates in the Eurozone lower for longer. However, we think QE is unlikely because deflation is unlikely due to the gradual strengthening of the Eurozone economy.

Nevertheless, a divergence in central bank policies between Eurozone and US is emerging with the latest ECB move. While the ECB is still pondering QE, the Fed is already advanced in withdrawing from its QE program. In the US, we expect Yellen will find it harder to communicate the 'lower rates for longer ' forward guidance in an environment which increasingly sees confirmation of strengthening growth and a (modest) rise in inflation due to a pickup in wage growth, higher producer prices and a weakened dollar. However, the rise in nominal rates will mainly be driven by real growth expectations and not by inflation. For the latter we need to see demand pull up inflation through wage growth exceeding productivity gains, a phenomenon which is still virtually absent. We expect US growth to be predominantly consumer driven, enhanced with capital expenditure by US firms. With more upbeat economic data ahead, we expect rates to rise above 3% towards the end of 2014. Higher rates in the US will likely spill over to the Eurozone. The Fed is unlikely to change the pace of tapering from the current level of USD 10 billion/month. On the one hand, the slack in the labor market is still too substantial to trigger an increase in the pace of tapering, while on the other hand the economic rebound we expect will prevent a slowdown from the current pace. High yield bonds have better relative risk/return profiles. We therefore prefer non-investment grade corporate bonds to government bonds as high yield provides a decent spread buffer against rising interest rates.

Mixed bag for commodities, underperforming cyclical indicators

US paves the way towards self sufficiency in oil

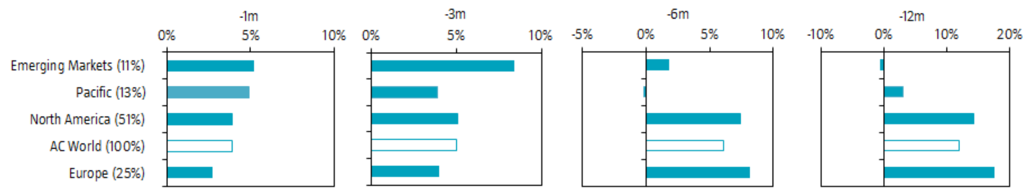
Source: Bloomberg, Robeco

We remain neutral on commodities. The three main drivers behind the upturn in commodity prices - extreme weather, geopolitical risk and worries about the Chinese growth path - abated somewhat last month. Overall, commodity prices fell 2.9% in May, although the underlying picture is highly mixed, with agriculture falling steeply and industrial metals and energy rising. This month we saw an improvement in leading Chinese demand indicators, which is positive for base metals, especially copper. Geopolitical risks for commodity markets have somewhat abated with Russia withdrawing its troops from its border with Ukraine and the election of the moderate Poroshenko as Ukrainian president. Nevertheless, the oil market still has to cope with significant outages in oil supply from countries like Nigeria, Iran, Iraq and Libya. According to the International Energy Agency, oil demand will pick up in the second half of 2014. However, we are less optimistic and do not think increased demand in developed markets will fully compensate the deceleration in emerging market oil demand. In the short term, demand will increase as the refinery maintenance season is over, and this will trigger seasonal demand again.

Although momentum and sentiment are still favorable for commodities, the current environmental, macroeconomic and geopolitical pictures still continue to affect different commodities in different ways. This makes us cautious to enter into an overall overweight commodity position, although historically the current phase of the global economic recovery has traditionally been supportive for the asset class.

Regional asset allocation – we remain overweight emerging markets

Equity markets were a clear 'buy' in May



MSCI AC World unhedged EUR; index weights between brackets

Source: Thomson Reuters Datastream, Robeco

We are overweight emerging markets as we believe that relative valuations are favorable. Emerging market equities trade at a discount of almost 30% discount to those in developed markets, and they display quite strong momentum. Sentiment is improving as well. We do not think that emerging markets are already experiencing a structural recovery, as economic activity is still subdued and fundamentals remain vulnerable. However, the country composition of emerging market equities is less sensitive to the recent currency-driven sell-off in the broader asset class. Equities are to some extent hedged for a decline in currency values, in the sense that a weaker exchange rate boosts the earnings outlook for the relevant country, as recent yen weakening in Japan has demonstrated.

We have become more constructive on North America, as improving macroeconomic momentum and brightening earnings revisions now indicate a pickup in earnings growth that justifies current US multiples. US non-farm payroll numbers showed continuing improvement in the labor market as 217,000 new jobs were added last month. Earnings growth will be firmed by improving retail sales and positive feedback effects from lower capital market rates in the US since the start of the year. Profit margins remain around peak levels of 9.4% for the S&P 500 companies, although further expansion seems unlikely as some labor market indicators show that wage growth is picking up. Volatility has remained low as the search for yield keeps sentiment towards risky assets positive, and the Fed is still buying US Treasuries, albeit at a diminished pace. At the same time, multiples expansion in the US, as measured by the Shiller variant, has not accelerated significantly in recent months. However, a further multiple contraction in the US will be difficult given overall positive sentiment, an apparent complacency in the market about risks, and diminished room for further expansion of profit margins from peak levels.

Europe: equity valuations are less favorable

We are now less constructive on Europe, although sentiment remains positive and the region is still experiencing net inflows. However, equity valuations in Europe have become less favorable, also on a cross-regional basis. Earnings revisions in Europe on a 3-month horizon, which have some predictive power for equity returns in the near term, are also the least favorable of all regions. Although the recovery in the Eurozone shows progress, downside risks remain. The monetary stimulus by the ECB on 5 June will only provide a mild boost for risky assets and will not likely change the overall corporate earnings picture in the medium term. The modest rate cut of 10 basis points will not likely provide a powerful boost to lending or corporate profit margins. A further risk we see for Eurozone equity exposure is the toughness of the ECB stress test for weak banks and the possible contagion risks stemming from any defaults, especially because the fixed income markets in the periphery are priced to perfection. Also, Europe remains relatively more vulnerable to a negative supply/demand shock from increased sanctions if Russia retains its passive-aggressive stance towards Ukraine.

Asia Pacific: third pillar of Abenomics remains a worry

We retain our neutral stance on Asia Pacific as we see few signs of the necessary improvement in the third pillar of Abenomics. Real wages fell further in Japan, restraining the spending power of Japanese consumers as inflation picks up because of the VAT hike on 1 April. There is also still no meaningful improvement in corporate business confidence. The BoJ seems confident with its 'on hold' stance in its observance of the preliminary consequences of the sales tax hike. We now expect the BoJ to step in with additional QE later this year, possibly in August. Further yen weakening could emerge as a result of BoJ action, although upward corporate earnings revisions for Japanese exporters will eventually run into diminishing returns. Also, a stronger US dollar later this year could help Japanese exporters. Valuations are still comfortably below their 10-year averages.
Asia Pacific again saw negative earnings revisions this month, possibly due to a stronger yen which hampers profit growth from Japanese exporters.

North America shows notable improvement in earnings revisions

	Earnings growth (%)			*Earn. rev. index*		*P/E on 12m fwd earn.*	
	FY1	*FY2*	*12m*	*3m*	*1m*	*Current*	*10y avg.*
North America	8,6	11,3	9,9	6,8	-6,4	15,4	14,0
Europe	7,1	12,6	9,2	-24,8	-18,5	14,2	11,8
Pacific	8,3	9,6	8,5	-7,1	-8,4	13,3	15,0
Emerging Markets	9,1	10,9	9,8	-14,9	-21,4	10,5	10,8
AC World	8,2	11,4	9,5	-7,2	-13,7	14,1	13,1

Earnings and valuation data of regions (MSCI AC World). The earnings revisions index is calculated by using the difference between the number of up- and downward revisions relative to the number of total revisions.
Source: Thomson Reuters Datastream. Robeco

Sector allocation – we are neutral due to counteracting forces

IT leads again

MSCI AC World unhedged EUR; index weights between brackets

Source: Thomson Reuters Datastream. Robeco

We maintain a neutral stance on sectors, as we see various counteracting forces at work. First, expected cyclical outperformance is highly correlated with macroeconomic surprises. Such surprises increased over the last month in the US, but their effect on cyclicals was dampened by already high expectations of a cyclical rebound in the US. Nevertheless, we have seen a rebound in the relative performance of value stocks compared to more cyclical, growth biased stocks, which bodes well for cyclicals. The IT sector was a clear outperformer last month. Also, earnings revisions are now more favorable for cyclical stocks, mainly driven by positive revisions in the IT industry. Overall, we need to see a clearer turn in momentum for cyclicals to emerge before going overweight. Earnings revisions remain negative for cyclicals overall, which is a reason to remain cautious about cyclical outperformance, despite our expectations for a rebound in developed market growth.

Cyclical sectors versus defensive sectors – improved earnings revisions for industrials and energy

	Earnings growth (%)			*Earn. rev. index*		*P/E on 12m fwd earn.*	
	FY1	*FY2*	*12m*	*3m*	*1m*	*Current*	*10-yr avg.*
Energy	9.2	6.0	7.7	0.5	1.8	12.4	10.8
Materials	15.6	15.6	11.6	-16.3	-18.7	14.1	12.1
Industrials	13.2	13.2	12.4	-4.4	-9.6	15.1	14.1
Consumer Discr.	8.6	15.5	12.1	-22.4	-28.5	14.9	15.2
Consumer Staples	4.8	9.8	8.0	-26.2	-32.8	18.0	15.8
Health Care	8.9	11.3	10.4	-5.4	-8.9	16.7	14.3
Financials	6.9	12.1	8.9	-2.0	-4.9	11.9	11.3
IT 13.2	10.8	12.0	13.0	-3.4	14.4	15.6	
Telecom Services	-1.9	7.7	0.6	-33.3	-43.6	14.9	13.7
Utilities	2.4	8.2	4.4	5.0	7.7	14.7	13.8
AC World	8.2	11.4	9.5	-7.2	-13.7	14.1	13.1
AC WORLD REITS	-11.4	2.7	-6.0	0.0	-0.1	29.2	N.A.

Earnings and valuation data of sectors (MSCI AC World). The earnings revisions index is calculated by using the difference between the number of up- and downward revisions relative to the number of total revisions.

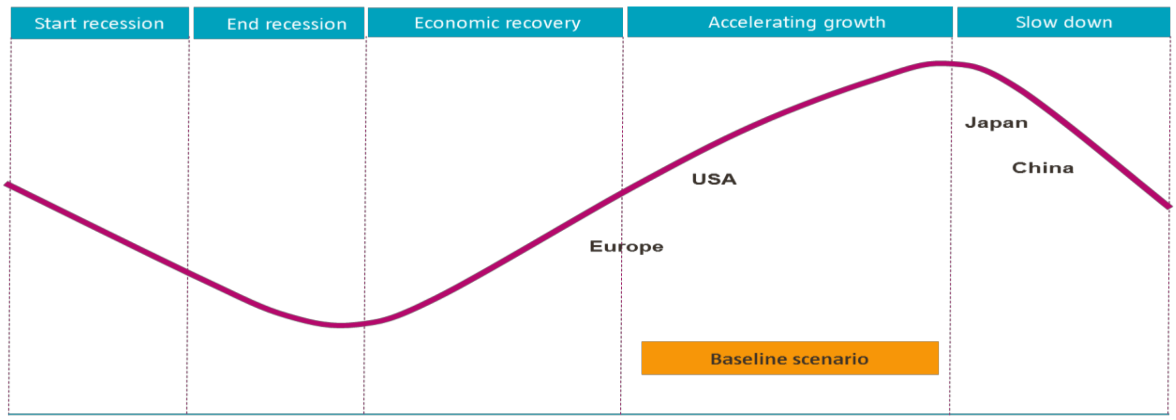
Source: Thomson Reuters Datastream. Robeco

Position in the economic cycle – we continue to foresee a gradual recovery

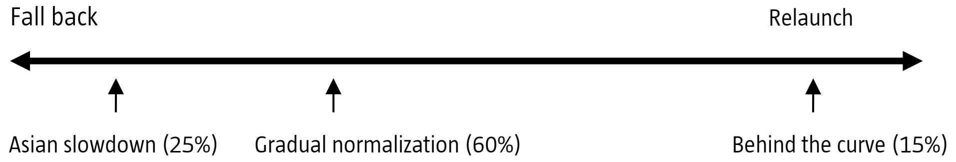
Macroeconomic scenarios and Robeco's view versus consensus

The world economy is developing positively, led by the US. Our baseline scenario foresees a further gradual recovery. 'Abenomics' is running into difficulties now that the VAT hike has kicked in. The Japanese central bank will eventually act energetically to weaken the yen. The Chinese authorities will prevent an excessive cooling of their economy and are in no hurry to implement ambitious reforms. The Eurozone continues to show a gradual, broad-based improvement. Our alternative, pessimistic scenario foresees a weaker global economy caused by slowing growth in Asia. In a positive scenario, the world economy is showing surprising strength, but central banks are unwilling to act correspondingly. As a result, inflationary risks will increase.

Position in the economic cycle – Europe lags the other major economies



Macroeconomic scenarios: a gradual normalization is the most likely outcome



Source: Robeco

Robeco's expectations for growth are higher than consensus for the US, Eurozone and UK

GDP growth by region (%)	*2013*	*2014*	*2015*	*Δ-1m 2014*	*Robeco**
US	1.9	2.7	3.0	0.0	+
Eurozone	-0.4	1.1	1.5	0.0	+
UK	1.7	2.8	2.4	0.1	+
Japan	1.7	1.4	1.2	0.0	=
China	7.7	7.3	7.2	0.0	=
India	4.6	5.0	4.7	-0.1	=
Brazil	2.3	1.8	2.2	-0.1	-
Russia	1.5	1.0	2.0	-0.2	-

* indicates whether we expect a higher (+), matching (=) or lower (-) inflation rate than the current consensus estimate for 2014

Source: Consensus Economics, Robeco

Robeco's expectations for inflation are lower than consensus for the US and Japan

CPI by region (%)	*2013*	*2014*	*2015*	*Δ-1m 2014*	*Robeco**
US	1.5	1.7	2.0	0.0	-
Eurozone	1.3	0.8	1.4	-0.1	+
UK	3.1	1.8	2.1	-0.1	=
Japan	0.3	2.6	1.7	0.0	-
China	2.6	2.6	3.0	0.0	=
India	9.5	9.5	7.8	-0.1	=
Brazil	5.9	6.4	6.0	0.3	+
Russia	6.5	6.5	5.5	0.2	+

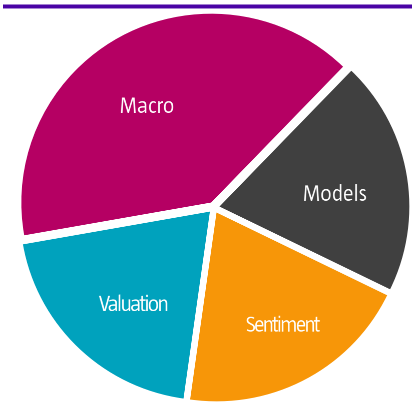
* indicates whether we expect a higher (+). matching (=) or lower (-) growth rate than the current consensus estimate for 2014

Source: Consensus Economics. Robeco

Robeco's multi-asset management approach

Our expectations are based on qualitative and quantitative analyses. Our starting point is to look at the long-term macroeconomic environment. We then determine our expectations for the economy for the next three to six months to find out which developments could take the market by surprise, as this is a common factor for all asset classes. This macroeconomic analysis determines our initial preference in terms of assets.

Input factors for our investment policy



Next, we challenge our macroeconomic analysis with input from financial markets. Here, we take valuations into account as at extreme levels this might cause the performance of an asset class to change direction. Sentiment also plays a role as markets tend to extrapolate shorter-term trends if investors put too much weight on recent developments. Finally, we use quantitative models to steer our expectations.

The table below shows our current multi asset allocation table.

	Portfolio	BM	active	previous	tracking error	risk budget
Equities Developed Markets	29.0%	25.0%	4.0%	2.5%	0.56%	63.1%
Equities Emerging Markets	6.0%	5.0%	1.0%	1.0%	0.17%	15.2%
Real Estate Equities	2.5%	5.0%	-2.5%	-1.0%	0.38%	-25.5%
Commodities	5.0%	5.0%			0.00%	0.0%
Core Gov Bonds 1-10	15.0%	20.0%	-5.0%	-6.0%	0.14%	11.1%
Core Gov Bonds 10+	7.5%	7.5%			0.00%	0.0%
Investment Grade Corp Bonds	19.0%	20.0%	-1.0%		0.03%	-0.5%
High Yield Corp Bonds	11.0%	5.0%	6.0%	5.0%	0.33%	28.2%
Emerging Market Bonds LC	3.0%	5.0%	-2.0%	-1.0%	0.18%	-3.0%
Cash	2.0%	2.5%	-0.5%	-0.5%	0.00%	0.0%
EUR/USD	-4.0%	0.0%	-4.0%	-4.0%	0.32%	-5.9%
EUR/JPY	2.0%	0.0%	2.0%	2.0%	0.22%	17.3%
EUR/GBP	0.0%	0.0%			0.00%	0.0%
EUR CASH	2.0%	0.0%	2.0%	2.0%		
Portfolio risk	6.05%	5.61%				

Closing date for text: 06 June 2014. We refer to calendar months in all our data tables.

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Important information