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Press Release

Robeco publishes Expected Returns 2022-2026: 'The Roasting Twenties – Things are heating up'

Rotterdam, 27 September 2021 – Robeco has published its eleventh annual Expected Returns report (2022-2026), a look at what investors can expect over the next five years for all major asset classes, along with post-pandemic economic predictions.

While the world is only just emerging from a major global crisis, Robeco is looking ahead to 2026 – the end of the five-year horizon in its annual publication – with tempered optimism. US labor productivity is expected to improve and a supply-side boost for the global economy is more likely to happen than it was last year. Robeco anticipates an investment-led pick-up in productivity that will beat the subdued GDP-per-capita growth during the 2009-19 great expansion. Another reason for a positive outlook are the prospects for technological breakthroughs.

Robeco's optimism is tempered, though. The fact remains that due to an atypical stop-start dynamic in 2020-21, macro-economic uncertainty hit its highest level in recent history, exceeding the levels it reached in the disinflation period in the 1980s and the 2008 global financial crisis. The question of whether inflation will be transitory or longer-term means that investors should keep an open mind as to how the economic landscape could unfurl over the coming five years.

Another, perhaps even more compelling, reason to temper optimism is the growing awareness of the severity of the climate crisis. Global temperatures will rise to at least 1.5˚C above pre-industrial level by 2040, leading to more extreme weather events and increased physical climate risks in developed economies. Robeco expects investors to incorporate climate risk factors into their asset allocation decisions more and more in the next five years. To help them do so, this years' Expected Returns framework introduces an in-depth analysis of how climate factors could affect asset class valuations in addition to macroeconomic factors. Robeco believes the most important considerations are:

- The composition of asset classes may be impacted more by climate change than expected returns, as Robeco anticipates more issuance of shares and bonds from green companies going forward.
- Emerging equity markets and high yield bond markets are much more carbon intense than developed equity markets and investment grade bond markets, which will put pressure on their prices over the next five years.
- Active investors can add value by integrating their view of climate change and how policies, regulations, and consumer behavior will affect a company's profits.
- Massive divestment from fossil fuel companies may lead to a carbon risk premium.

Peter van der Welle, Strategist Multi Asset at Robeco: "*A year and a half after the initial Covid-19 outbreak, the world is at a crossroads. Amid the paradox of recovering economies and technological growth on the one hand and macroeconomic uncertainty and climate risk on the other, we believe the world will transition towards a more durable economic expansion, the 'Roasting Twenties'. Negative real interest rates drive above-trend consumption and investment growth in developed economies, while the link between corporate and public capex and the productivity growth that ensues remains intact, with positive real returns on capex benefiting real wages and consumption growth. "*

Laurens Swinkels, Researcher at Robeco: *"Although 86% of investors from our survey believe climate risk will be a key theme in their portfolio's by 2023, regional valuations do not yet reflect the different climate risks to which the various* *regions are exposed. Therefore, this year's Expected Returns publication takes into account, for the first time since its launch in 2011, the impact of climate change risk on returns. "*

Table 1.1: Expected returns 2022-2026

	5-year annualized return EUR	5-year annualized return USD
Bonds		
Domestic AAA government bonds	-1.50%	1.00%
Developed global government bonds (hedged)	-0.50%	0.75%
Global investment grade credits (hedged)	0.25%	1.50%
Global corporate high yield (hedged)	1.50%	2.75%
Emerging government debt (local)	2.75%	3.75%
Cash	-0.25%	1.00%
Equity		
Developed market equities	4.25%	5.25%
Emerging market equities	4.00%	5.00%
Listed real estate	3.75%	4.75%
Commodities	5.00%	6.00%
Consumer prices		
Inflation	2.00%	2.25%

Source: Robeco. September 2021. The value of your investments may fluctuate and estimated performance is no guarantee of future results.

In addition to the five-year outlook, the report also covers three special topics, related to the theme: 'The Roasting Twenties – Things are heating up':

- Factor investing: Some factors are now more equal than others
- Central banks' post-pandemic playbook
- What's so cryptic about cryptocurrencies

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About Robeco

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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 2021, Robeco had EUR 200 billion in assets under management, of which EUR 177 billion is committed to ESG integration. Robeco is a subsidiary of ORIX Corporation Europe N.V. More information is available at www.robeco.com.