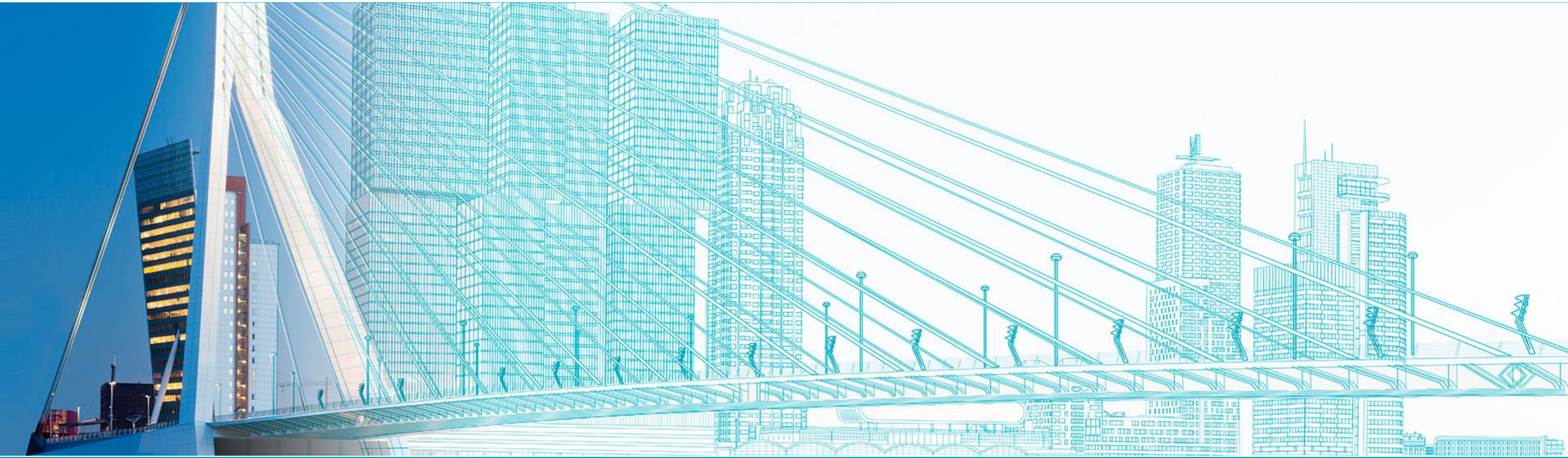
ROBECO

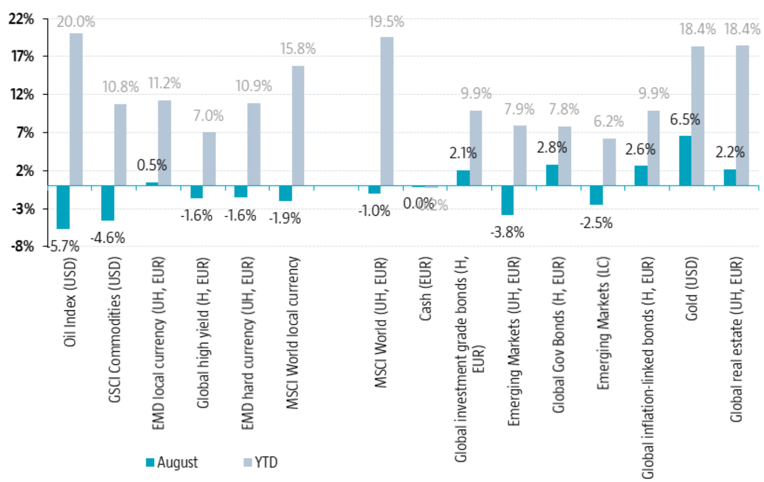


Multi-asset market outlook

For professional investors
September 2019

General overview

Defensive assets shone in August



Source: Bloomberg, Robeco

Positions: risk profile lowered by lowering the equity weight

	Portfolio	BM	active
Equities Developed Markets	24.0%	25.0%	-1.0%
Equities Emerging Markets	4.0%	5.0%	-1.0%
Real Estate Equities	5.0%	5.0%	
Commodities	5.0%	5.0%	
Core Gov Bonds 1-10	20.0%	20.0%	
Core Gov Bonds 10+	7.5%	7.5%	
Investment Grade Corp Bonds	19.0%	20.0%	-1.0%
High Yield Corp Bonds	2.0%	5.0%	-3.0%
Emerging Market Bonds LC	5.0%	5.0%	
Cash	8.50%	2.5%	6.0%
EUR/USD	0.0%	0.0%	
EUR/JPY	0.0%	0.0%	
EUR/GBP	0.0%	0.0%	
EUR CASH	0.0%	0.0%	

- In August, the trade spat between the US and China substantially escalated. It started on 1 August, when President Trump surprisingly announced that the US would move forward with raising tariffs on almost all remaining Chinese imports. That was a surprise, as this round of tariffs increasingly impacts consumer products. As expected, China retaliated – not only did they stop buying US agricultural products, but they also raises tariffs on a additional USD 78 billion US imports. The yuan also slipped through the psychological level of CNY 7 to 1 USD.

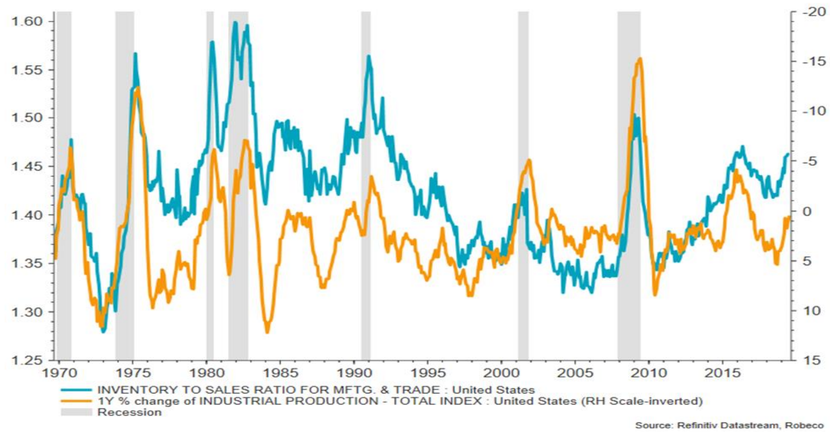
- It shouldn't come as a surprise that markets didn't take this too well. The natural reaction for the markets is to look at central banks for help, and expectations were raised for both the ECB and the Fed to deliver monetary support.

- Given the increase in market uncertainty, the best performing asset classes were those that provide a shelter in challenging times. Gold was the best performer in August – the prospects of more monetary policy and with it the further debasement of currencies is spurring the yellow metal, as the opportunity cost of holding such safe haven assets becomes less of a constraint.

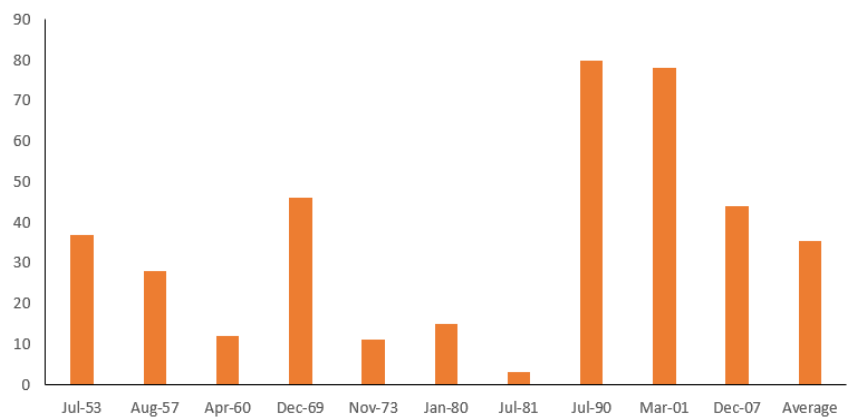
- In August, we decreased the risk profile of the portfolio. We did this through lowering our equity exposure from neutral to underweight, and further increasing our cash allocation. The underweight in equities is evenly split between emerging markets and developed markets.

Theme of the month: What's driving the mid-cycle slowdown (I)

Inventory-to-sales ratio versus YoY change in industrial production



The number of months that ISM manufacturing peaked before a recession began



Source: Bloomberg , Robeco

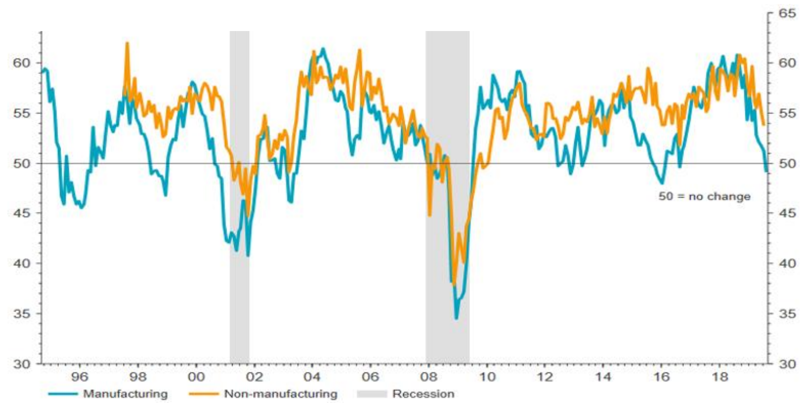
- The global economy is stuck in a persistent slowdown concentrated in the manufacturing sector amidst pervasive economic policy uncertainty. The latest ISM manufacturing producer confidence index slid into contraction territory at 49.1 in August, delivering little comfort for investors. Is this a harbinger of late cycle-malaise? Our view is that we are in a mid-cycle slowdown, but the economy is likely to shift into a higher gear towards the end of 2019. The speed ramp posed by the global mid-cycle slowdown in (car) manufacturing likely won't bring global growth to a standstill.

- A mid-cycle slowdown is usually caused by a slowdown in the inventory cycle. Today, the US inventory-to-sales ratio is at 1.45, a level similar to the mid-cycle peaks observed in 1995 (1.44) and 2016 (1.47). This similarity looks rather promising, though the difficulty is that a slowdown in the inventory cycle has historically also coincided with slowdowns that ultimately killed the expansion (such as in 2001). The presence of an inventory cycle slowdown is therefore a necessary but insufficient condition for establishing whether we are experiencing a mid-cycle slowdown or late-cycle malaise.

- The consensus view is that the current US yield curve inversion heralds a recession in about 18 months, indicating we are late-cycle indeed. However, the last two business cycles prior to the one we are enjoying now has shown that the lags between inversion and recession seem to have lengthened, occurring 29 months after the 2005 inversion and 33 months after the 1998 inversion.

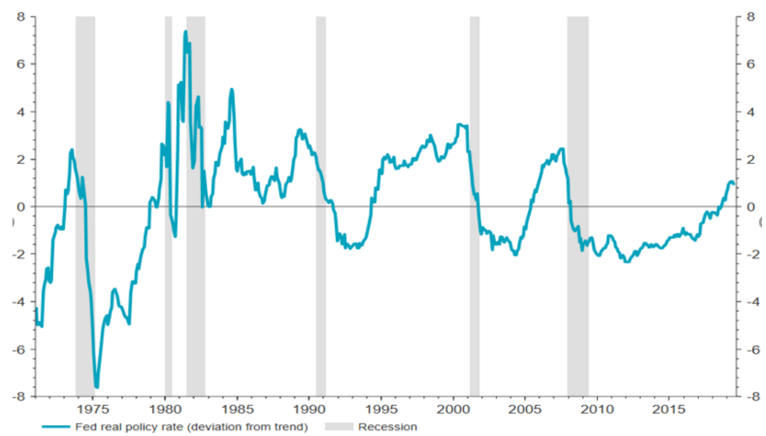
Theme of the month: What's driving the mid-cycle slowdown (II)

The ISM Index and recessions



Source: Data Stream, Robeco

Real Fed policy rates



Source: Data Stream, Robeco

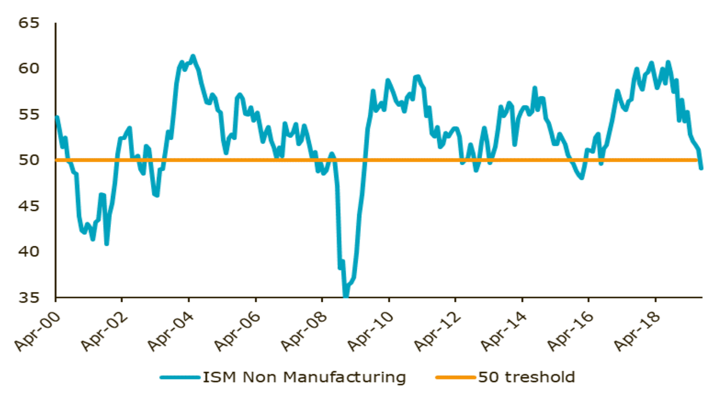
- There is corroborating evidence from an increased lag between a cyclical peak in the US ISM manufacturing index and the subsequent recessions. This lag has stretched way beyond the historical average of 36 months in the previous three business cycles, taking 80, 78 and 44 months respectively. The lengthening of lead/lag relationships between yield curves, producer confidence indicators and recessions in recent decades suggests that this expansion, already playing in extra time, may have some vigor left.

- The most likely explanation for a longer lag is the declining importance of manufacturing for the global business cycle, in contrast with the increasing importance of the services sector, which now accounts for 45% of US GDP. While manufacturing is already in contraction, the ISM non-manufacturing index is still indicating ongoing expansion in the US services sector. In summary, it is hard to envisage a US recession without the services sector showing signs it is about to slide towards outright contraction.

- Another issue is real policy rates, which are below 1% in the US and negative (-1%) in the Eurozone. Historically, US real interest rates at the end of Fed cycles have been significantly above 2%. The US has never seen a recession without real interest rates overshooting its long-run trend by at least 2% (today's number is 0.96%). In short, real interest rates resulting from the Fed tightening cycle that started in December 2015 are unlikely to have been punitive enough yet to bring the US economy to a standstill.

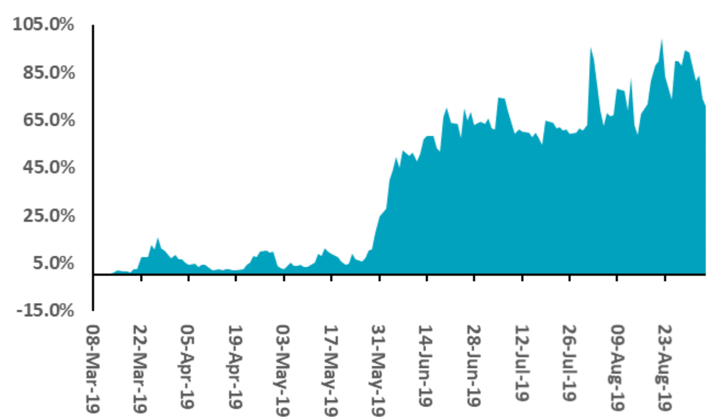
United States

ISM manufacturing index reading drops below 50



Source: Bloomberg, Robeco

A 25 basis point rate cut is highly anticipated in September



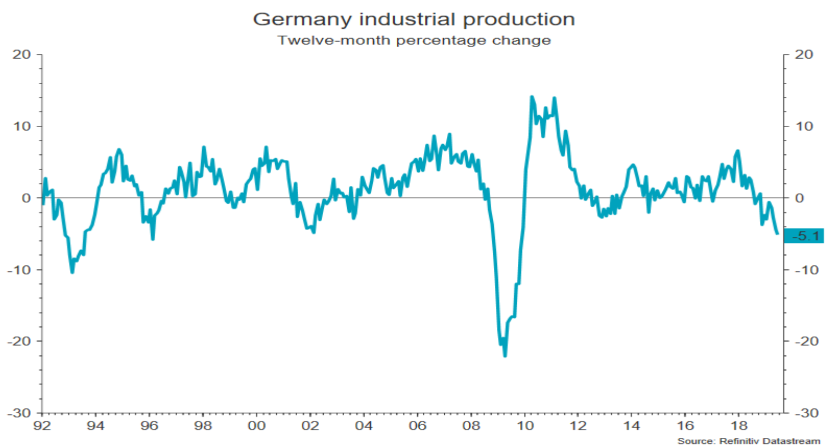
Source: Bloomberg, Robeco

- **The Fed**: The only conclusion to draw from recent comments by the Fed is that rates will once again be cut in September. Increased uncertainty about growth in the US and the noticeable slowdown in the rest of the world is a worry for the US central bank. The current level of inflation expectations also doesn't hinder the Fed's ability to cut rates. A 25 basis point rate cut is almost fully priced in by the market for September. The question is whether this is sufficient to convince the market that the Fed is on the ball. The mid-cycle narrative of the last meeting didn't go down well with the market, as it was interpreted as meaning the Fed was not willing to get ahead of the curve. If the level of bond yields is any guide, then the markets continue to expect more rates cuts to come. In other words, a 25 basis point cut will not do much, and in that respect could be seen as a wasted bullet, unless the Fed gets some help from either the economy, or some positive news on trade.

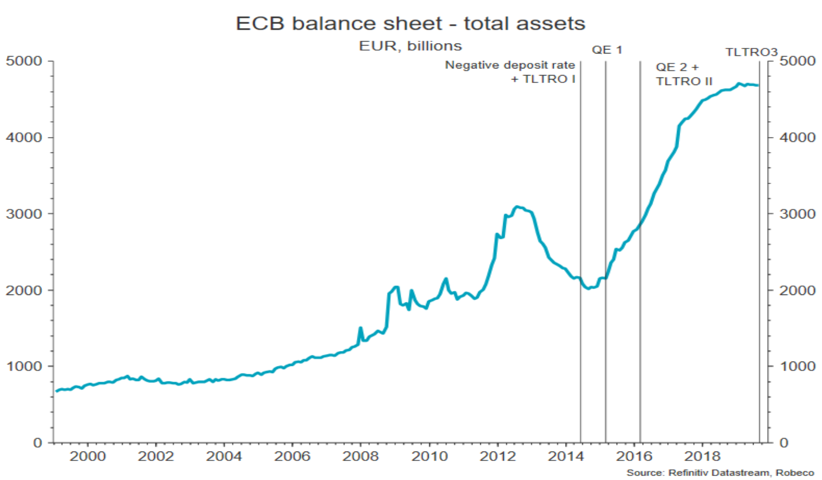
- We think that the Fed's view is defensible from a fundamental perspective, as both GDP growth and job growth were/are still reasonable. Also, when one looks at the consumer side of the economy, things still look decent. However, fundamentals don't seem to be the driver this time around. The dominant driver is sentiment. The negative trade headlines continue to eat away at confidence, and this is visible in the business sentiment indicators. This cautiousness of companies (mainly in manufacturing) is having a massive impact on the willingness to invest. As we don't expect much clarity on the trade negotiations between the US and China anytime soon, visibility will remain low. Both companies and central banks will need to continue to deal with this.

Europe

Germany's manufacturing slowdown deepens



ECB policy action: TLTRO + QE + additional rate cut



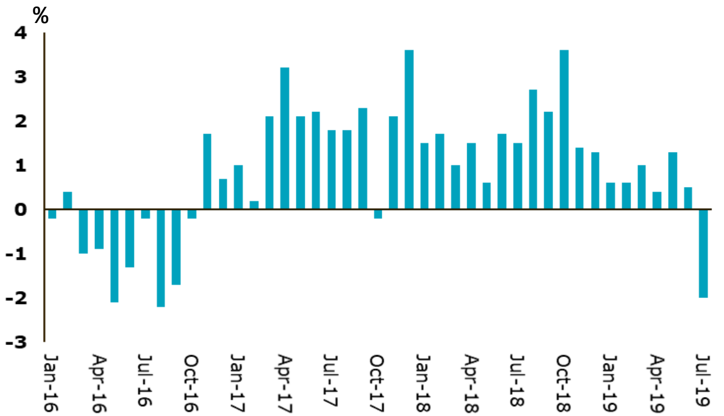
- The August Markit Eurozone Composite PMI increased by one-tenth from 51.8 in the previous month to 51.9, indicating a Eurozone growth rate of about 1.3%.

- Italy has formed a new government after the previous populist 5-Star/Northern League government collapsed. The new coalition between PD and 5-Star – the 67th Italian government in 73 years – under Prime Minister Giuseppe Conte reduces the risk of a confrontation with Brussels. It has been welcomed by financial markets, as Italian-Bund spreads have dropped by a full 100 bps since early August. Also helping Italy (and the broader Eurozone periphery) is new European Commission President Ursula von der Leyen saying fiscal rules should be interpreted more freely. This call for simpler fiscal rules was echoed by Christine Lagarde during her European Parliament hearing regarding her candidacy for the ECB presidency.

- Given the deepening manufacturing slowdown in Germany, a debate about the usefulness of maintaining the 'Schwarze Null' (balanced government budget) has re-ignited. Many fear that the policy space for the ECB has become very limited, with the complete German yield curve already negative. The official stance towards fiscal stimulus remains reactive rather than proactive, and meaningful fiscal stimulus will likely only be applied once a German recession has materialized. The ECB will likely cut interest rates by 0.1% in September, but a very large QE effort is less likely, given technical constraints (issuer limits) which would only be mitigated if the outlook worsens further.

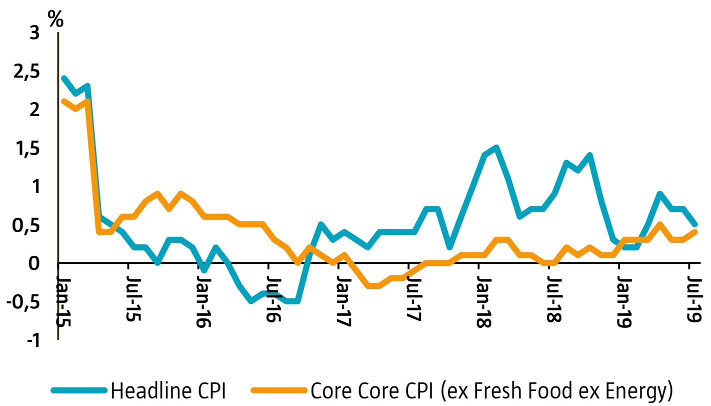
Japan

Massive drop in YoY retail sales



Source: Bloomberg, Robeco

Inflation remains far below target



Source: Bloomberg, Robeco

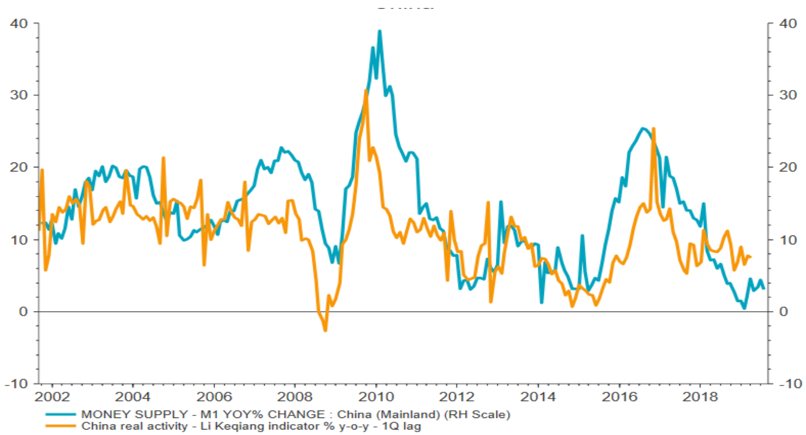
- **BOJ**: So far, the Bank of Japan has refrained from taking part in the new rate-cutting cycle by central banks. The relative stability of the yen and equity prices probably played an important role when this decision was made. The BOJ did keep the door open to change its stance when momentum for achieving the price stability target is lost. The moment of truth for BOJ policy comes in September, when the ECB and the Fed are expected to ease further. If this has a massive negative impact on domestic financial conditions, we expect the BOJ to act. If it does ease, we would expect NIRP deepening, along with measures to offset any negative side effects associated with it. This could include the application of negative interest rates to the loan support facility, or a shift in the yield curve control target from long term to medium term.

- The number of economic surprises are starting to taper off. This loss of economic momentum is also starting to become visible in the more consumer-driven side of the economy. This was a part of the economy that had been quite resilient. Consumer sentiment dropped across the board. Retail sales came in substantially weaker, and it looks like purchases ahead of the VAT hike planned for October are already over. While the unemployment rate remained at historically low levels, the job-to-applicant ratio continues to slide lower. Though the ratio is still pretty high, it shows that the job market is starting to lose momentum.

- The inflation index excluding both energy and fresh food – the gauge preferred by the BOJ – came in at 0.6% on a yearly basis, and is still far below the ambitious target of 2.0%.

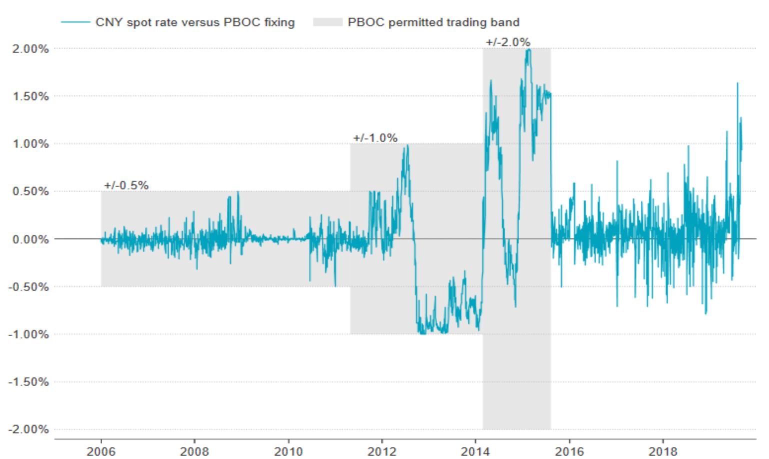
China

Some signs of stabilization in the Chinese economy



Source: Refinitiv Datastream, Robeco

The CNY is experiencing depreciation pressure as the trade spat intensifies



Source: Refinitiv Datastream, Robeco

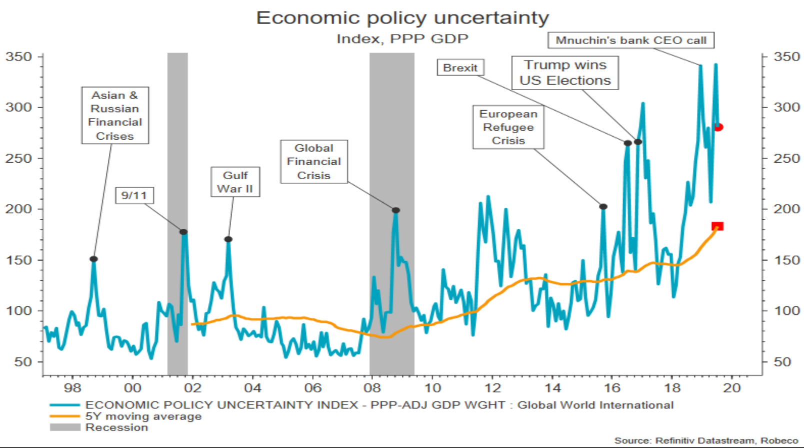
- The Chinese are still entangled in a trade spat with the US, which only deepened after President Trump announced a 10% tariff on an additional USD 300 bln of tariffs on Chinese imports. The Chinese retaliated with tariffs on USD 75 bln of US imports. The yuan slid below the long held threshold of CNY 7 to USD 1 dollar in reaction to the latest tit-for-tat round in the hostilities.

- Despite the intensifying trade spat in August, the Chinese economy has shown signs of stabilization. The most promising sign is that the manufacturing sector has rebounded, with the Caixin manufacturing PMI moving from 49.9 in July to 50.4 in August, signaling (albeit very modest) expansion again. Second, the services sector has remained resilient, as the Caixin services PMI moved further up to 52.1 compared to 51.6 in July. Companies cited improved demand and a boost for new projects and increased hiring. These developments can also be traced back to the fact that broad money growth (M1) has stabilized. Chinese real activity has closely tracked money growth in recent years. Talks between the US and China will restart in early October, which could improve producer confidence further.

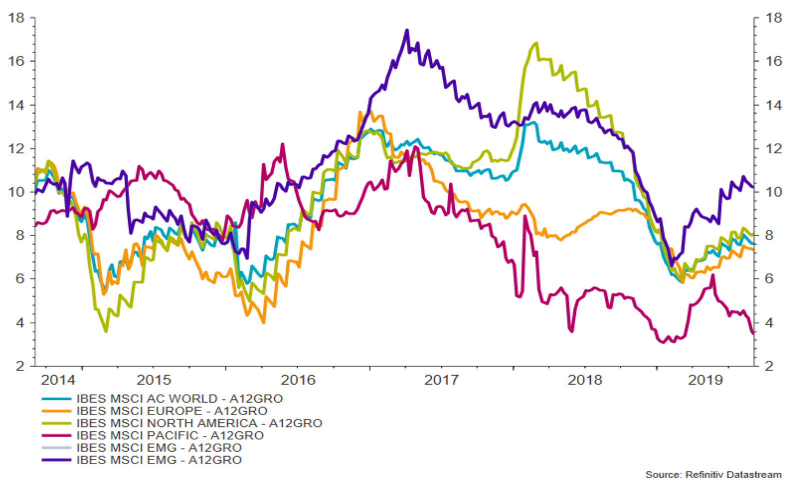
- Previously we have said that "more fiscal and monetary stimulus is to be expected in an effort to stabilize the manufacturing sector". On 4 September, China's State Council pledged both broad and targeted cuts in the reserve requirement ratios for banks " in a timely manner" to boost the economy. The yuan fixing versus the US dollar will likely remain above 7 as long as a trade deal remains out of sight.

Equities (I)

Pervasive economic policy uncertainty as trade spat continues



Analysts have upgraded 12M forward EPS YTD, except for Asia-Pacific



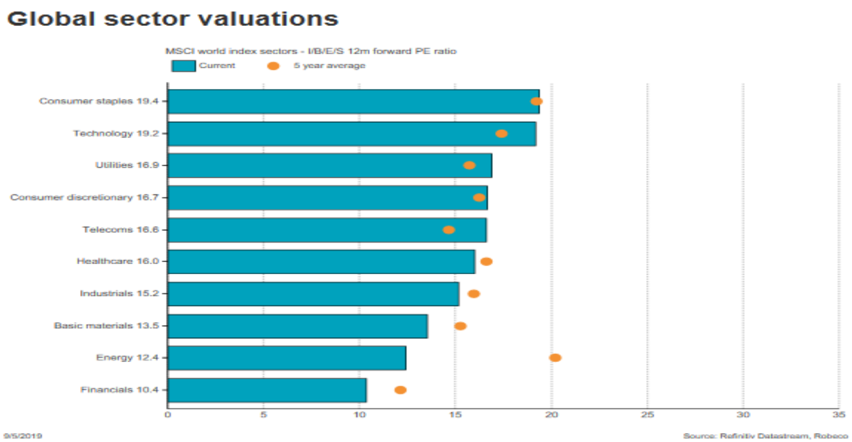
- August saw broad-based downward pressure on equity markets, with only Russia staying afloat, generating a 0.0% monthly return in local currency. Geopolitics were the culprit again. Hong Kong closed the ranks with a 7.1% loss, as massive student protests continued unabated in the streets. Trump's 'diplomacy' via Twitter added to global tensions, as he announced additional tariffs on Chinese imports, which the Chinese were swift to counter with tariffs on US imports. In Europe, the debate around Brexit in the British parliament proved to be a rollercoaster, with the pound sliding as the odds of a no-deal Brexit increased throughout August.

- In this setting of record high economic policy uncertainty, it is no surprise to see global producer confidence deteriorating further in the manufacturing sector, and export-dependent economies being hit directly by a setback in trade negotiations. The JP Morgan global manufacturing PMI improved a bit from 49.3 in July to 49.5 in August, but remains in contraction overall. Producers anticipate that China has embarked on a 'long march' and that quick wins on the trade front have become less likely.

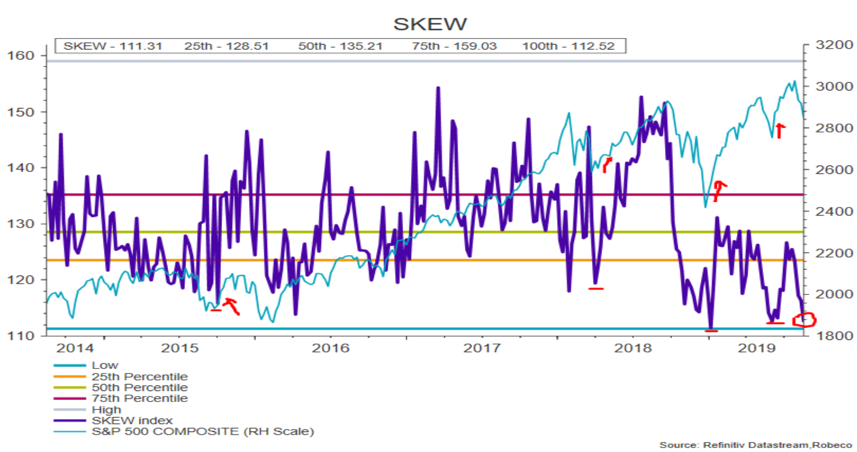
- Global macroeconomic surprises have remained in negative territory, suggesting that incoming data is still below consensus expectations, and possibly inducing analysts to further adjust expectations lower. On a positive note, resilience in the consumer and services sector mitigates the persisting negative momentum in manufacturing, which has become a smaller slice of global economic activity.

Equities (II)

Energy and financials remain unloved by investors



Correlation between Fed futures and equities is positive



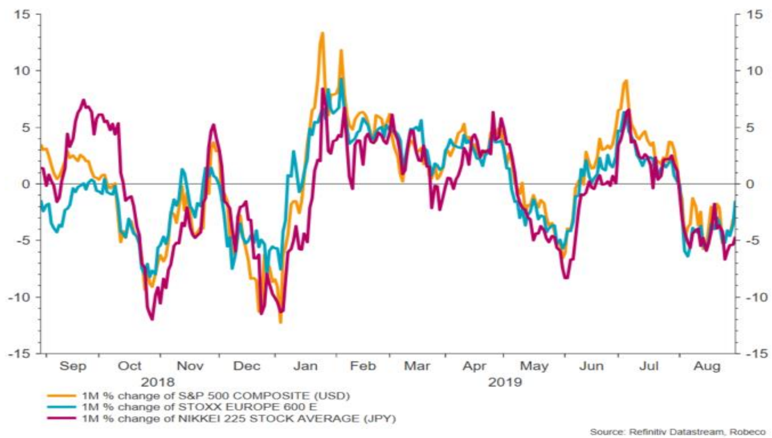
- A persisting slowdown in manufacturing could create negative spillover effects in the services sector, as broader producer confidence starts to become affected and a vicious spiral develops. In this sense, the fear of a recession has only been aggravated by the deeper inversion of the US yield curve. A negative feedback loop between disappointing macro data and a postponement of investments and consumption can be broken if we see progress on trade negotiations. At the time of writing, China and the US had had fruitful calls, and planned to continue face-to-face talks in early October. Trump's tweets increasingly suggest he is a fully aware of this negative feedback loop, and wants (actually needs) a trade deal before the 2020 election race gets into full swing. From a fundamental point of view, we think we are in a mid-cycle slowdown rather than a late-cycle malaise, and global activity will likely pick up towards the year-end.

- If a temporary near-term deal on trade between the US and China is still on the cards, the Fed is likely to see fewer downside risks that would warrant an emergency rate cut cycle. This would be effectively negative 'discount rate' news for equities, but is likely to be fully compensated by earnings growth that could improve on the back of improved prospects for the goods sector.

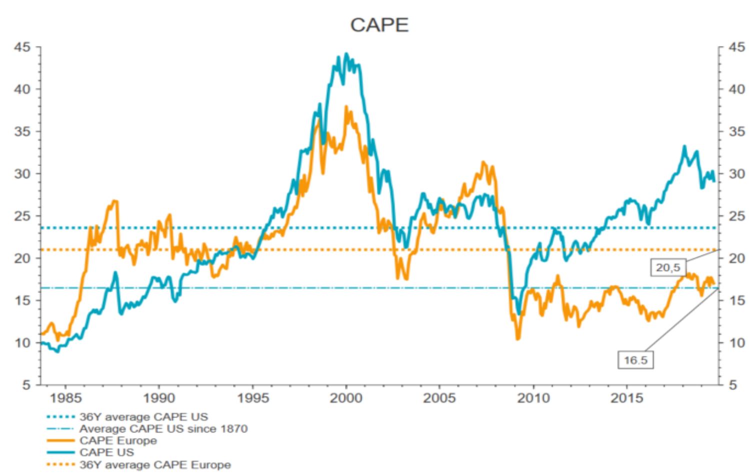
- Technicals like SKEW (insurance price against tail risk) is exceptionally low, indicating that equities could advance into the year-end. We remain underweight as the mid-cycle slowdown still has momentum, but we await opportunities to re-enter an overweight in global equities.

Developed Market Equities

Developed equity momentum is negative, but improving



Equities are getting cheaper at the margin



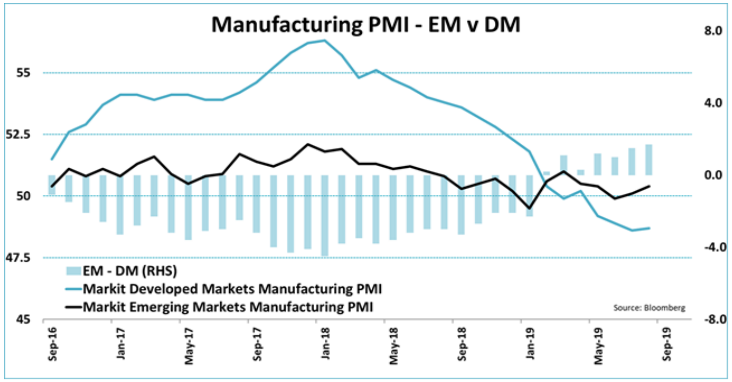
- In August, developed equity short momentum stayed in negative territory, after the equity market went into a correction in July. In August, the US yield curve became the most inverted it has been since 2007, flagging elevated recession risk.

- US equity momentum has been relatively strong in recent quarters, but in August, monthly momentum of equity returns in local currency showed that S&P 500 equities lost 2.9% , while European Stoxx600 equities showed less negative momentum, losing 1.5%. Returns in Japan were negative as well, showing a 4.6% monthly loss for the major Nikkei 225 index. The long momentum signal (12M-1M)in local currency has stayed positive for the US at 3.9%. European long momentum entered negative territory once again in August at -0.1%. Japanese equities experienced a stronger negative long momentum, eyeing a -5.0% return.

- Equity valuations showed very modest moves after the sizeable equity de-rating in the last quarter of 2018. Despite a huge downward move in global interest rates during the last couple of months, this 'discount rate effect' had little impact on getting equity valuations higher. Future earnings recession risk is weighing in, and analysts have revised future global earnings projections notably downwards. US equity valuation measured through the cyclically adjusted price earnings ratio (CAPE) declined to 28.9. European CAPE at 16.9 stayed at a level that remains well below its long-term 36-year average, and continues to show a sizeable discount to US equities. We remain neutral in our regional equity allocation.

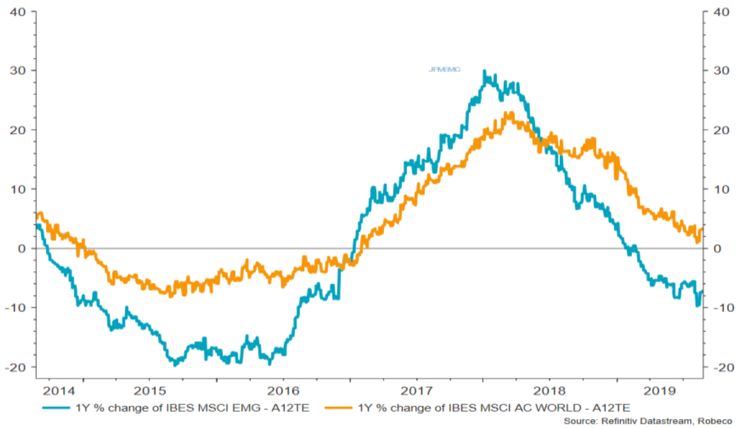
Equities: Emerging versus Developed

EM v DM: Manufacturing PMI



Source: Bloomberg & Robeco

Earnings revisions

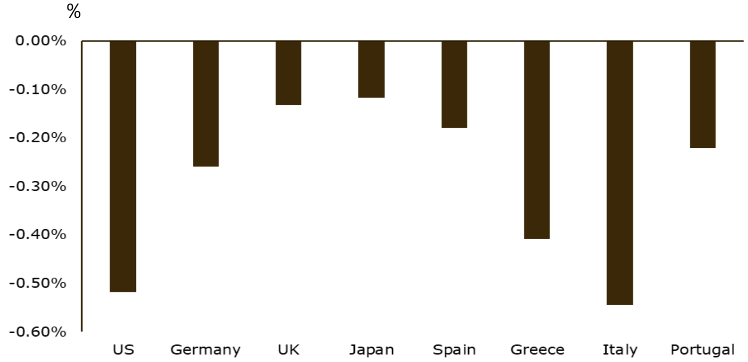


Source: Refinitiv Datastream, Robeco

- Emerging market equities were hit hard by the re-escalation of the trade war between China and the US and fell more than 5% in August. They underperformed developed market equities, which fell 'just' 1%.
- Emerging markets – especially those with open economies – are relatively vulnerable to any hiccups in global trade, and the latest episode in the trade spat is likely to aggravate things. More signs are appearing that global growth is slowing, with China being the most important example of this. Industrial production and retail sales growth both slowed to multi-year lows.
- Singapore and South Korean exports – seen as bellwethers for future growth – remain downbeat, and while numbers could improve as a result of base effects, no real uptick should be expected. More stimulus by central banks is helpful, but it will be difficult for them to get ahead of the curve quickly. Also, the US dollar is not weakening, which means there is no catalyst for outperformance.
- As the chart on the bottom left shows, earnings expectations in emerging markets have come down massively, and to a far larger extent than in developed countries. This is often accompanied by EM underperformance, as we have seen in the last couple of months.
- We are underweight EM equities in our multi-asset portfolio, as trade tensions continue to hit manufacturing and exports, and ultimately, global growth.

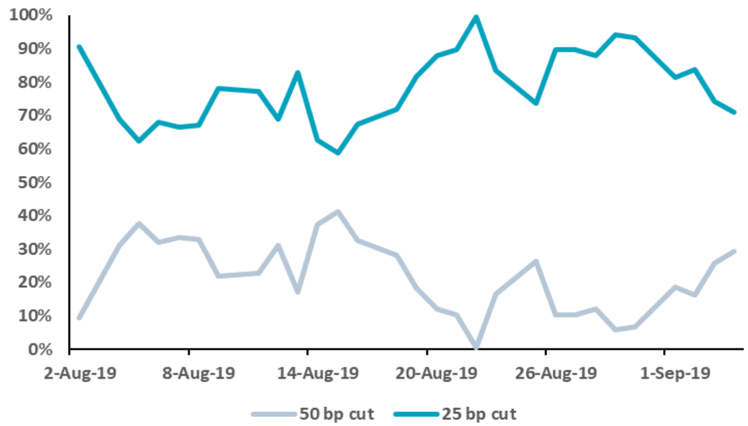
AAA Bonds (I)

August: the slide to the bottom continues



Source: Bloomberg & Robeco

The probability of a 50 basis point cut in September is increasing



Source : Bloomberg & Robeco

- The race to the bottom continued in August, as yields dropped across the board. Even the renewed political developments in Italy – normally an event that would cause some market anxiety – only briefly provided support for Italian yields. The drop in Italian 10-year yields was amongst the largest in the developed world.

- If the 10-year yields are any guidance for future economic conditions, things are looking very gloomy for the global economy.

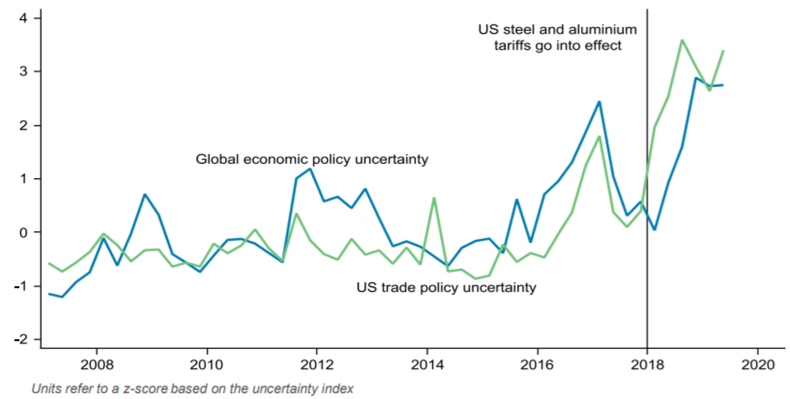
- One thing, however, is very clear, and that is that markets are once again expecting central banks to save the day. Both the ECB and Fed are expected to deliver some form of easing at their upcoming meetings. For the Fed, a rate cut of 25 basis points is almost a done deal, according to the market.

- Still, when one looks at the fundamentals, the question may still be if rate cuts are warranted. We fully recognize the limitations of economic data to predict a recession. We also don't deny that the economic numbers are softer, and that uncertainty is high (the trade war, Brexit, etc.). But does this really imply that US 10-year yields need to be within 10 basis points of their all time low (reached on 8 July 2016)?

- In other words, is it right to expect an aggressive rate-cutting cycle, as the bond market currently seems to be doing?

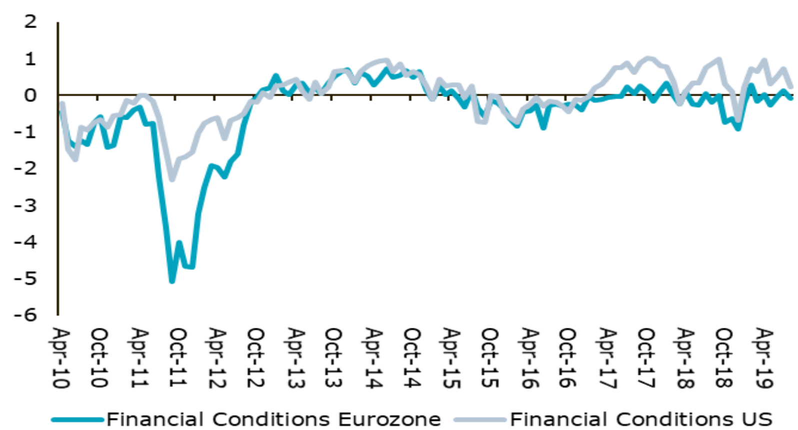
AAA Bonds (II)

Policy uncertainty remains high



Source: Economic Policy Uncertainty ,Macrobond, BNP Paribas

Central banks can afford to disappoint as this will further tighten financial conditions



Source: Bloomberg & Robeco

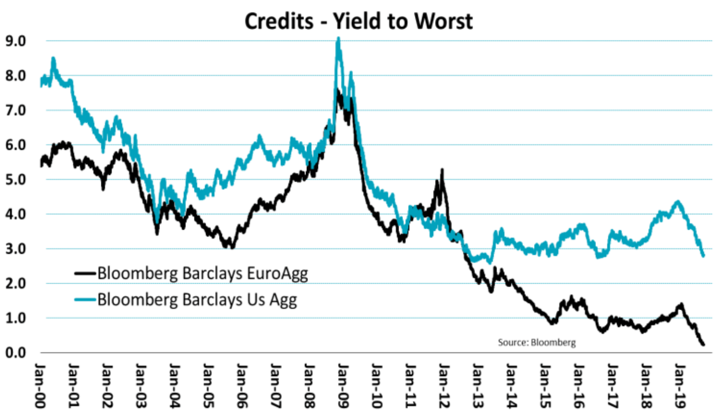
- We think from a fundamental perspective that the answer is still 'no'. From a risk management perspective, however, cutting rates is almost a no-brainer, as uncertainties due to trade disputes and politics are weighing heavily on corporate sentiment. Given how far the 10-year US Treasury yield has already moved, and the fact that the market is already anticipating a 25 basis point rate cut, we fear that this cut will have little to no impact.

- Central banks are in tough spot. If they do too little, the market will be disappointed, and this could trigger a sell-off which most likely will cause financial conditions to deteriorate. If they give the market what it wants, the chances are that it will continue to demand more. This is highly likely, as central banks can't take away the uncertainties that we currently face. What would help them is signs that the manufacturing slowdown is finally coming to an end. Unfortunately, the slowdown is not only caused by a good old inventory correction, but is also the consequence of trade uncertainty. The latest manufacturing ISM number slipped below 50, indicating that we haven't reached the end yet.

- For now, we stick to our call that we are not heading for a recession, but instead are just in the midst of a mid-cycle slowdown. However, if uncertainties keep lingering, confidence will continue to erode further. This increases the probability that the current slowdown turns into something much more malign. We therefore have decided not to change our allocation and remain neutral on AAA bonds.

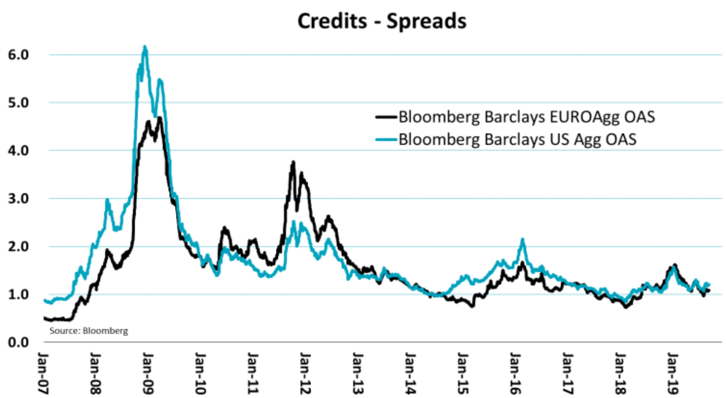
Investment Grade Credits

Yield



Source: Bloomberg, Robeco

Spread



Source: Bloomberg, Robeco

- Global investment grade bonds added another 2% in return in August, again completely driven by a sharp decline in global Treasury yields. Spreads actually widened as growth momentum and geopolitical risks dampened investor mood. The sheer magnitude of lower bonds yields obliterated this effect, however.

- Credits tend to perform well for a brief period after the first Fed rate cut. However, further down the line, things become more difficult as the cycle matures. Spread widening typically occurs in the early part of the rate-cutting cycle.

- Technicals have improved on the back of central bank policy, but fundamentals remain sluggish. Earnings growth is under pressure, defaults are absent, leaving zero room for improvement, and most importantly, leverage is both high and rising.

- Valuations remains unattractive. If anything, they have worsened, especially from a yield perspective. The effective yield, as shown in the graph on the top left, remains incredibly low. This is especially the case for Eurozone credits, where the yield-to-worst has fallen to 0.24%. Spreads are also low, but not as extremely so as yields, and offer little to no buffer to adverse market circumstances. Taking into account that duration has increased, especially in the US, the risk/return trade-off remains unappealing.

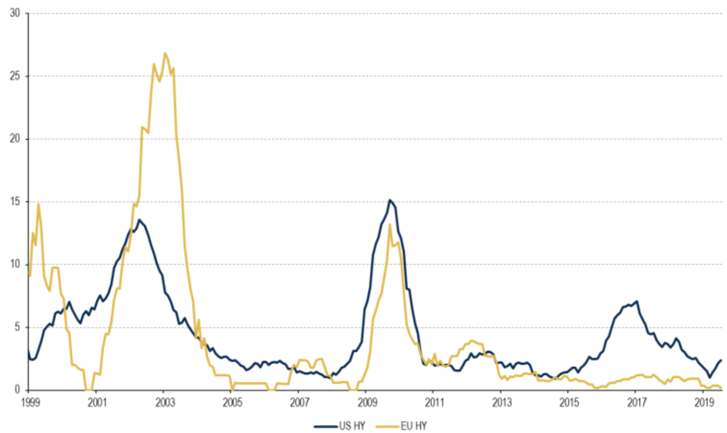
- We stay underweight credits.

High Yield

High yield – Spread

Source: Robeco & Bloomberg

High yield – defaults



Source: BofA Merrill Lynch & Bloomberg

- Global high yield bonds fell 1.6% in August on the back of increased geopolitical uncertainties and doubt about the strength of the global economy.

- While the Fed will do its best to turn the current slowing of global growth into a mid-cycle slowdown, the odds have increased that we are nearing the end of the cycle. High yield bonds tend to be among the first asset classes to turn when the end of the economic cycle appears on the horizon.

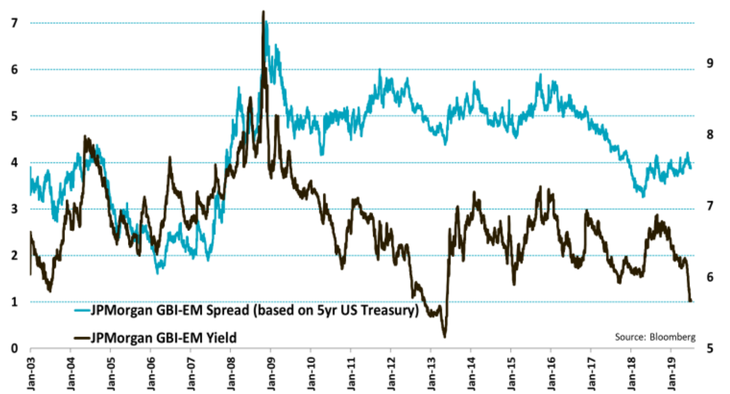
- While it is not certain the we have reached the end of the current economic expansion, it is clear that the quality of high yield bonds has worsened. Moody's Covenant Quality Indicator (CQI) hit an all-time low in July. Given that yields – not necessarily spreads – are low, especially in Europe, the asset class lacks in relative attractiveness.

- In the US, the default rate continues to increase, rising to 2.4% in August, the highest level since October last year. We do not expect a default spike from here, but do acknowledge that given current economic sentiment, high yield defaults will become more common. In the Eurozone, the default rate remains close to zero.

- We remain underweight global high yield bonds, as valuation is unattractive, and vulnerability to potential further weakening of global growth is high.

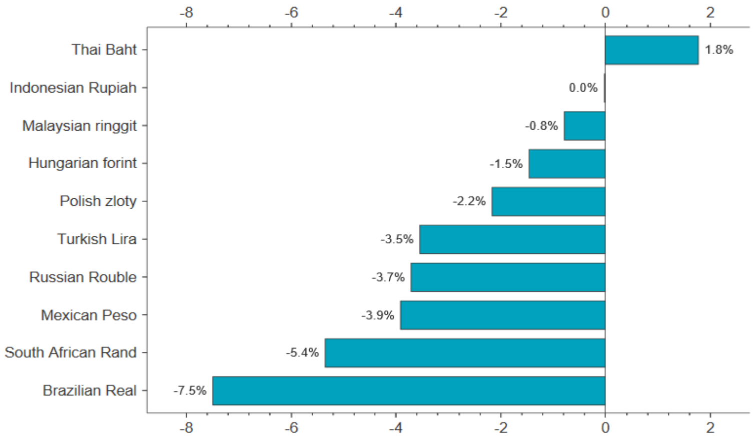
Emerging Market Debt

Emerging market debt in local currency – spread and yield



Source: Bloomberg, Robeco

Emerging market currencies against the euro

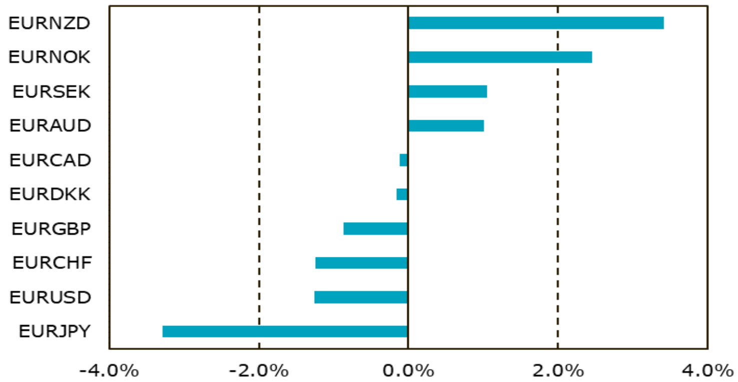


Source: Thomson Reuters Datastream, Robeco

- Local currency emerging market debt realized a negative return of 1.6% in August, ending a very strong run for the asset class in recent months. Yields fell sharply but spreads widened as weakness in Argentina, Turkey and South Africa hit the asset class.
- Trade tensions, slower economic growth and a significant depreciation of the Chinese yuan are all hampering local currency emerging debt performance. Central banks, both in developed and emerging markets, have started easing again, but remain behind the curve for now.
- China has entered its currency into the trade war mix. The yuan has depreciated more than 4% since late July when the trade war re-escalated. The weaker currencies partly offset lower Chinese exports, but at the same time put pressure on other (Asian) emerging currencies as well. Idiosyncratic forces in Argentina, Turkey and South Africa continue to impact currency performance as well.
- We believe that emerging debt and currencies offer some value. That said, continuous pressure on the Chinese currency is likely to continue unless the trade relationship between the US and China improves meaningfully.
- We remain neutral, mainly because we believe other asset classes are less attractive, and need to adjust more to represent current market and political circumstances. Also, we are underweight EM equities.

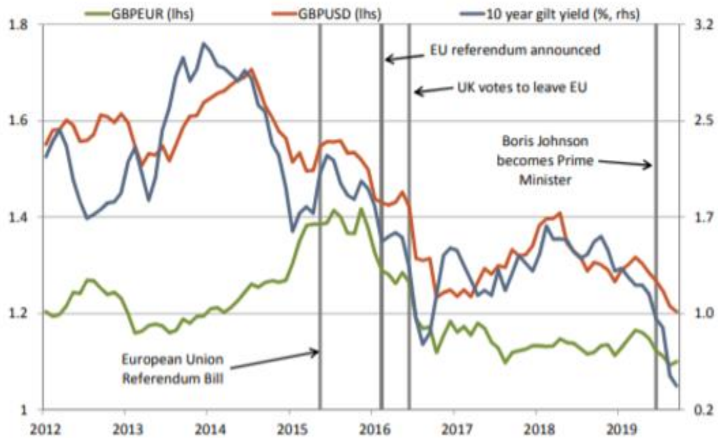
FX (I)

G-10 currencies: the yen is the strongest of them all



Source: Bloomberg, Robeco

The ebbs and lows of politics continues to determine the path of sterling



Source :NWM, IMF, Haver

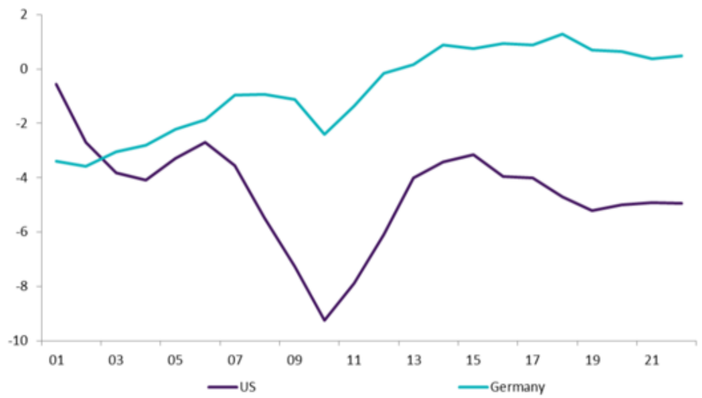
- The strongest three currencies in G-10 in August were the Japanese yen, Swiss franc and the US dollar. All three share the same characteristic, namely that they are perceived to be safe havens in times of volatility. The big losers were those currencies which tend to be seen as being cyclical. When one looks back at the performance of G-10 currencies, then it was reasonably in line with what one would have expected, given the market conditions in August.

- A surprise was the performance of sterling, which strengthened against seven of the G-10 currencies. Sterling continues to be driven by the ebbs and flow of the Brexit process. With Boris Johnson as the new UK Prime Minister, and given his views and his character, one can only imagine that volatility in sterling is likely to remain substantial.

- In general, one thing is obvious, and that is that when uncertainty increases, everybody looks to the central bank for help. But can central banks really do anything about the uncertainties that trouble markets? Or have we reached a point where central banks are just tapped out? This is a dangerous thing to say, as over the years, central banks have proven to be rather ingenious when it come to monetary policy. One just has to look at the transformation of the ECB since the great financial crisis. But given all the policy stimulus that has been implemented over the past decade, one needs to be honest, and can only conclude that reflating the economies hasn't been as successful as one would have hoped. It is maybe time for fiscal stimulus to take over, and if it does, it is highly likely to impact the behavior of currencies.

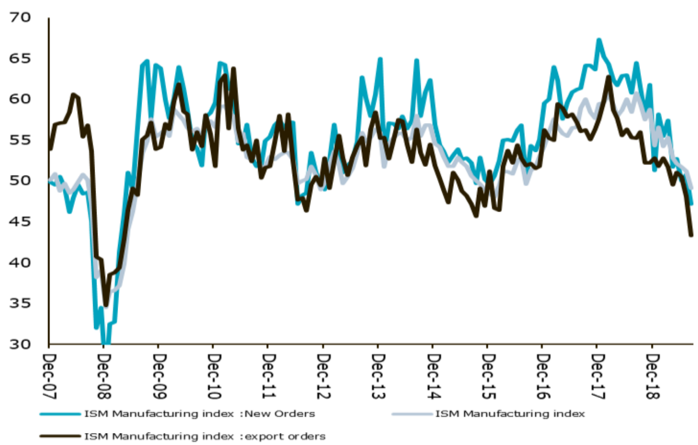
FX (II)

Structural fiscal balance as a percentage of GDP: Germany vs. the US



Source: NWM, IMF, Haver

Weakness has reached the US shore



Source: Bloomberg, Robeco

- In Europe in particular there is a need for more fiscal stimulus. Currently, however, the focus remains on more monetary stimulus. The market expects the ECB to deliver formidable additional stimulus. One does need to question what can ultimately be achieved by this extra stimulus, given that rates are already negative. Will this monetary impulse indeed steepen the curve, or can this only be achieved by fiscal stimulus?

- The Bank of Japan (BOJ) is one of the few central banks that has refrained from cutting rates over the past period. The BOJ will continue to be reactive instead of proactive. The reaction of the Japanese currency to policy changes by the ECB and Fed will determine if the BOJ will ultimately spring into action.

- Last year, the US was the market that was the least impacted by the trade dispute with China. It was the manufacturing sector – from emerging markets to the Eurozone – that felt the pain instead. This year it became noticeable that the US was not immune from it, and as the manufacturing weakness started to reach the US shores, business confidence started to deteriorate. However, the rest of the world failed to stabilize and actually moved in tandem with the US. Relatively high US rates in combination with the historical safe haven properties of the US dollar keep the currency attractive. As long as the relative attractiveness of the US dollar is not challenged, it can remain resilient, though we think that it has already moved a long way. We therefore prefer to remain on the sidelines.

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