

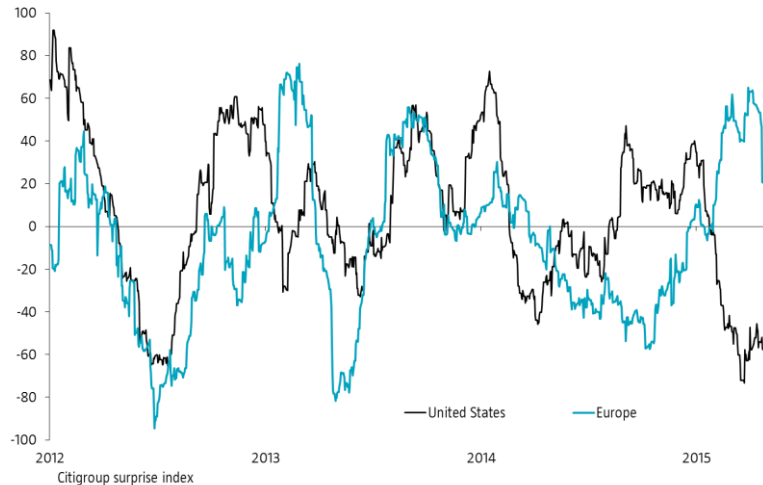


Multi-asset markets outlook

May 2015

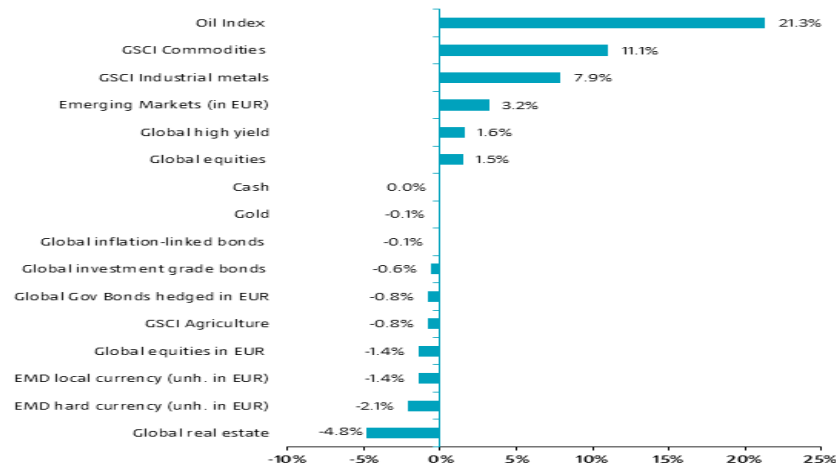
General overview

Economic momentum has weakened



Winners and losers in April

Multi-asset: April

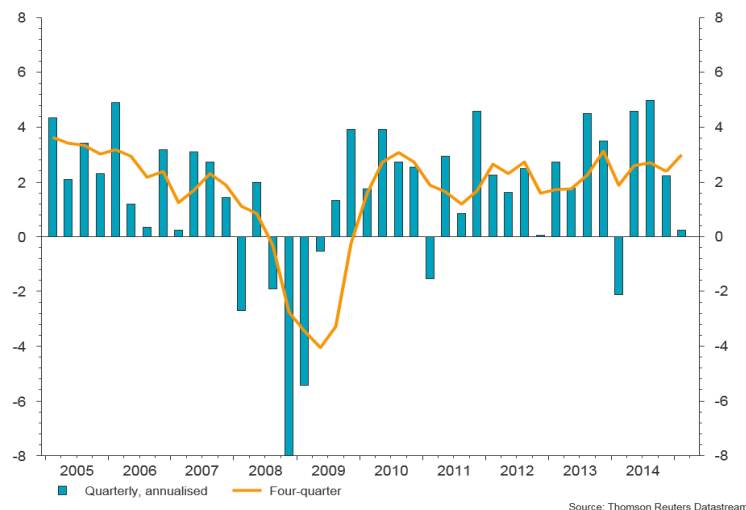


- April turned out to be a month with limited positive news across the board. US, Japanese and Chinese economic data all disappointed, while European data – although broadly still better than expected – failed to impress as much as it did in Q1, as analysts raised the bar with respect to European growth expectations. Although this ‘raising the bar’ may be interpreted as good news, it was overshadowed by the rising tensions concerning Greece, with the odds of a ‘Grexit’ clearly on the rise. The spillover in financial markets may have been limited so far, but it can hardly be called a sentiment booster. Earnings season was positive, but mostly because expectations had been slashed by too much just prior to the release season.

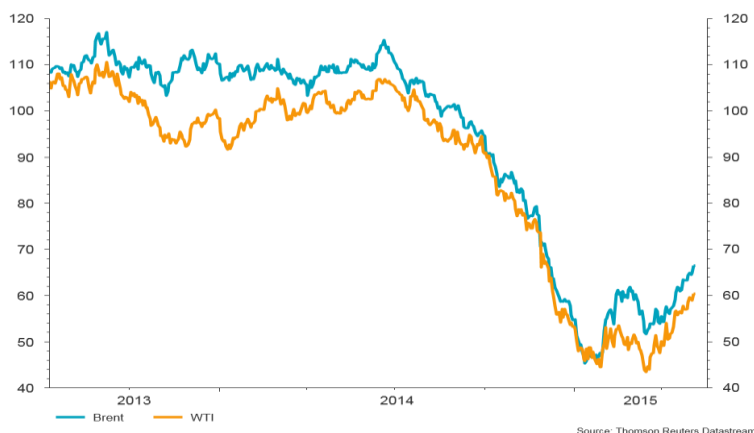
- Looking at financial markets, most of the action took place during the latter part of the month, with two distinct developments grabbing the headlines. The first is the reversal of the euro’s weakness, as it rebounded by 7% from the April low, triggering a sell-off in European stock markets. The second was the sharp reversal in the European bond markets, with 10-year German bond yields rising by more than 30 basis points. The unwinding of long bond positions in an illiquid end-of-month market were the main causes for this strong correction. We closed our 30-10-year flattener trade in early May after interest rates continued to rise.

United States

US GDP: revision will probably show Q1 2015 shrinkage



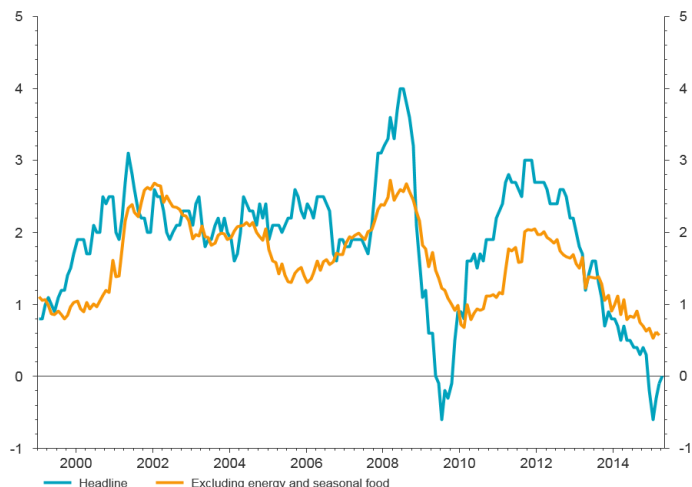
Oil prices: a striking rebound



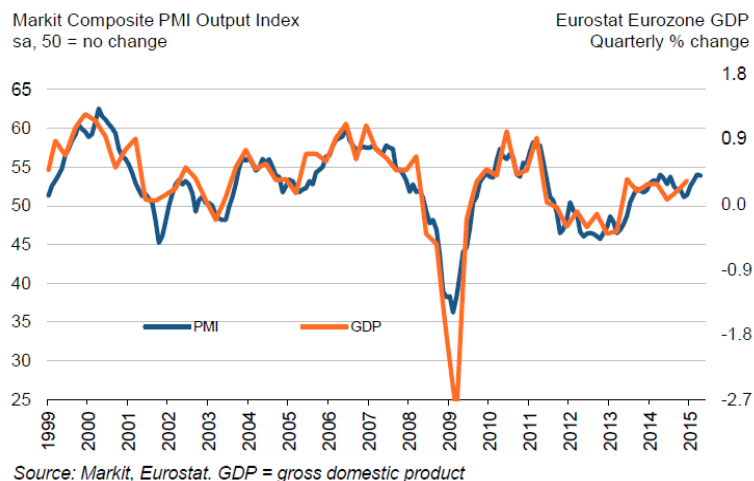
- The US economy continued to disappoint. It barely grew in the first quarter. The surge in the trade gap in March suggests that the next revision of GDP figures will probably show shrinkage in the first quarter. But the trade data are distorted due to a protracted labor dispute in West Coast ports, which was finally resolved on February 21, after which a catching-up process took place. Dollar strength and an exceptionally harsh winter also contributed to the weakness. We expect a stronger second quarter as the US labor market continues to strengthen and real household income grows at a healthy rate. These factors should support consumption. A first rate hike by the Fed in June is now definitively off, but our baseline scenario still calls for a hike after the summer.
- Stronger-than-expected demand from China and Europe, production shutdowns in Libya, and a weaker dollar have all led to a rally in oil prices. But we are now nearing levels at which OPEC's apparent plan to curb higher-priced production such as US shale and ultra-deepwater exploration off Brazil will be threatened. Some of the largest shale producers are preparing to respond to the price rally.
- Meanwhile, deflationary fears for the US, with headline inflation decreasing by 0.1% in March, will disappear for the time being.

Europe

And end to deflation in the euro area



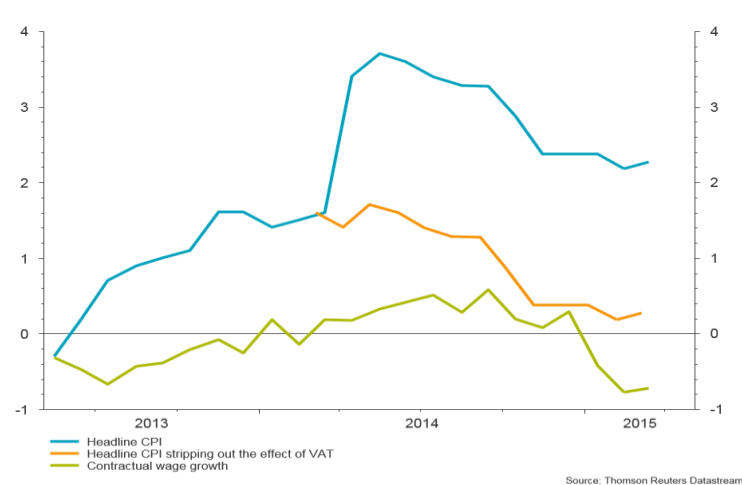
Eurozone growth continues



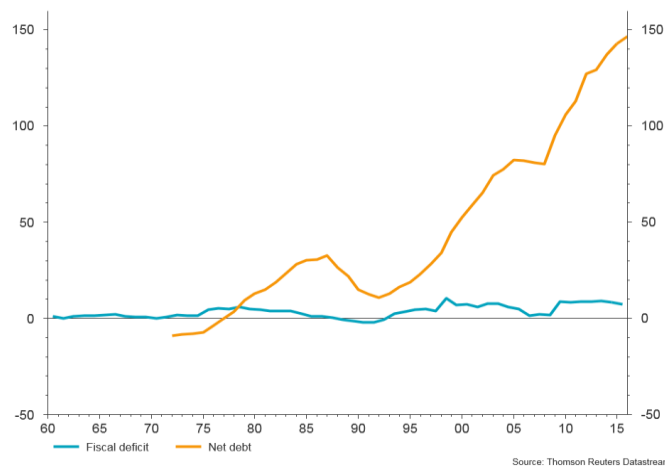
- The Eurozone economy failed to accelerate further in April, but was able to keep up the same momentum as in March. All large Eurozone economies showed output rises, with Spain doing particularly well. Even Italy is showing improvement. Important progress on electoral reforms has been made by Prime Minister Renzi. A clear outcome of general elections will give a majority premium to the winning party, which will be assured of a comfortable majority in the lower house of parliament over the five years of the legislature. The balance of power will shift dramatically towards the executive. France remains the laggard, its economy nearly stagnating. The recent rise in oil prices, long-term interest rates and the euro are so far not significant enough to warrant a lowering of our forecast for Eurozone growth in 2015 of 1.75%.
- After only two months of quantitative easing, representatives of the ECB are stressing their commitment to fulfill the program until September 2016. They are doing their utmost to discourage any tapering talk, signalling their wish to err on the side of caution. Meanwhile, the deadlock between Greece and its creditors continues, with the Greek government showing hardly any flexibility on structural reform, while inching closer to default. The EU will go to great lengths to prevent a 'Grexit'.

Japan

Japan: 2% target of inflation ex-VAT is way off



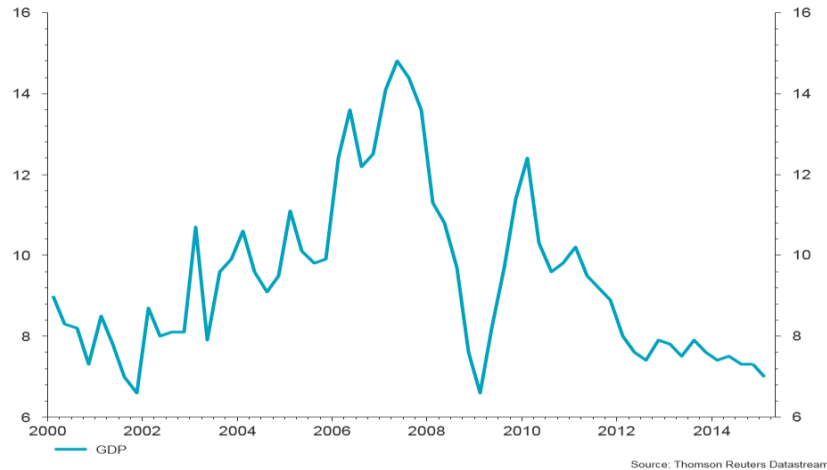
Japan's net debt is steadily rising



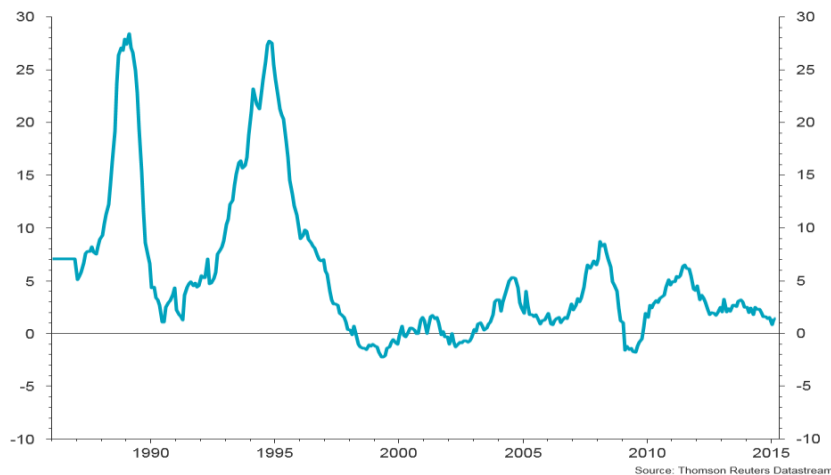
- The Bank of Japan (BoJ) recently lowered its growth and inflation targets. GDP is now expected to grow 2.0% in the year to March 2016 (the previous estimate was 2.1%), while the inflation rate is seen at 0.8% (previously 1.0%). The 2% target for inflation has been pushed back to the first half of the fiscal year 2016 (April through September). Nevertheless, the BoJ is refraining from adding additional monetary stimulus for the time being, the argument being that the price rise trend is steadily improving. The BoJ would probably like to put the blame on the decrease in energy prices. We think additional stimulus is inevitable, as the BoJ has so far failed to raise long-term inflationary expectations among households and firms. Moreover, the economy seems to be stalling as retail sales are very disappointing, as are wage developments.
- The US and Japan are close to sign a deal on a 12-country Trans-Pacific Partnership which would cover 40% of the global economy. To avoid annoying the US, which has to ratify any deal, some caution on the yen is warranted.
- After delaying the VAT hike, the Japanese government has been unable to find a credible way to stabilize its official debt load. Japan's Long-Term Default Rating (IDR) has therefore been downgraded by Fitch to 'A' from 'A+'.

Our BRICS highlight this month: China

Chinese GDP growth is slowing down

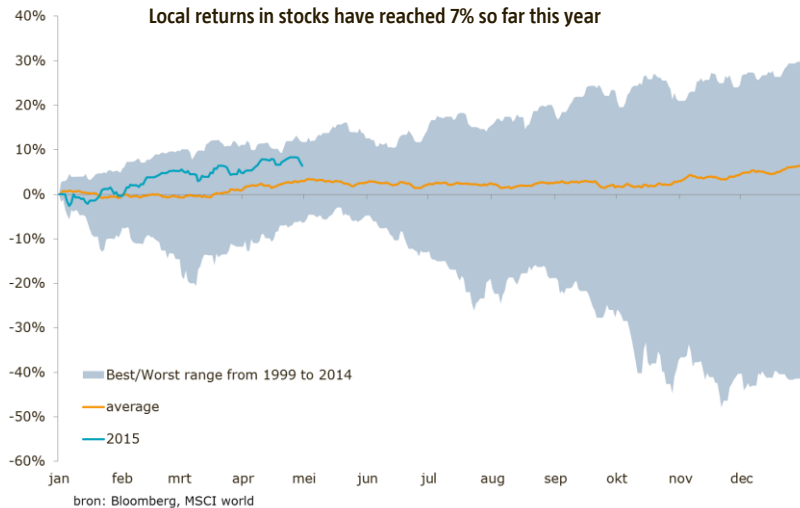


Chinese inflation is well behaved

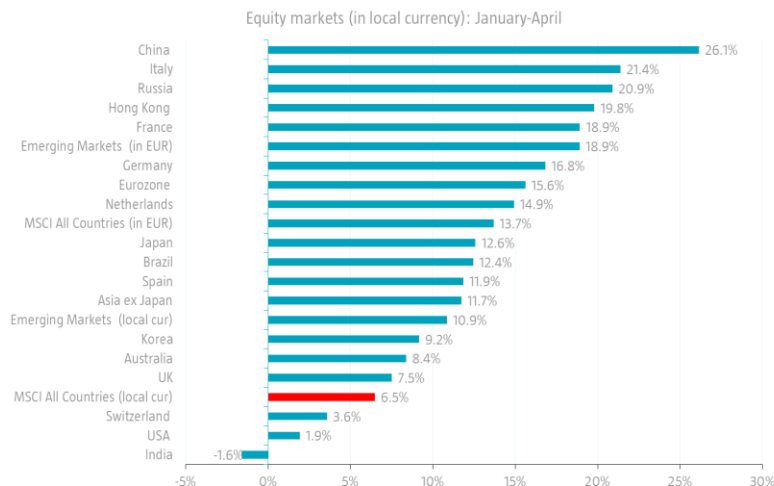


- The Chinese economy continues to slow down. In the first quarter, GDP increased 7.0% (against 7.3% for Q4 2014), exactly in line with the government's target for the year. However, industrial production continues to slow (to 5.6% in March) and property sales and construction continue to deteriorate. Though the Chinese government is signalling that GDP target growth will decline gradually, and the importance of the yearly GDP target should diminish, it is clear they want to prevent Chinese growth weakening too much. The People's Bank of China (PBOC) is gradually stepping up stimulus. In November 2014 it began to lower interest rates and recently lowered the required reserve ratio for banks by an unconventional full one percent. The PBOC is also accepting local government bonds as collateral. Furthermore, the government is applying fiscal stimulus via the China Development Bank to boost the construction of public housing and infrastructure.
- A sign of immaturity of the Chinese financial system is the current strong rally on the stock exchange. This rally risks being fanned further by the ongoing loosening of monetary policy. The government fears a crash and is therefore reluctant to rein in the market, for example by cutting back borrowing to buy shares. Risks to financial stability are on the rise.

Equities (I)

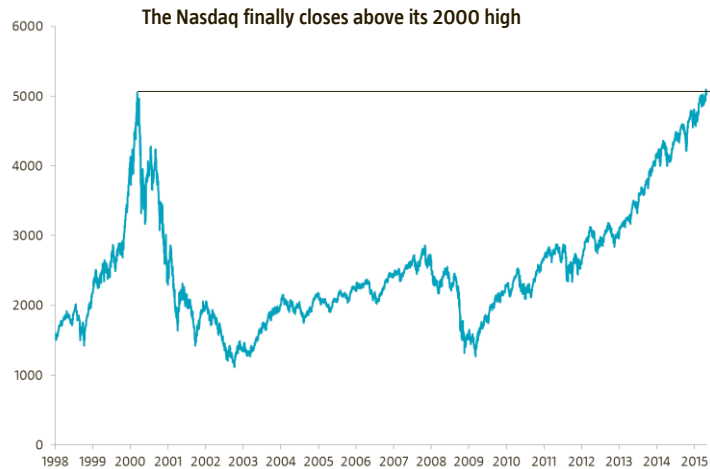


A very skewed picture, looking at stocks



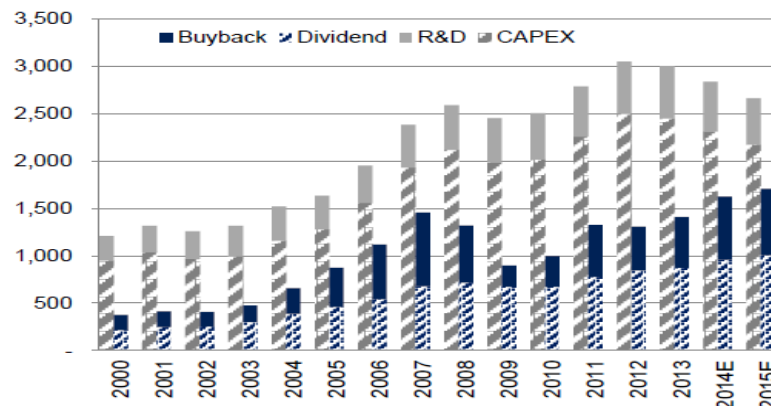
- We have said it before and we will probably have to say it again, but 2015 has so far been a bit of an atypical year when it comes to equities. You wouldn't say that if you looked at the development of the broader market though, with stocks drifting higher. Worldwide stocks netted a 6.5% total return in the first four months if we take the MSCI total return in local currencies as the benchmark. This is somewhat more than the 1999-2014 average, but this deviation is hardly enough to call it out of the ordinary. The atypical part appears when we look at the regional breakdown of these local currency returns. Some 85% of local stock indices have yielded a (far) better result, with only three of the major indices showing below average returns (see chart. Such a skew is something out of the ordinary, and it can only happen if a stock index with a big weight is showing a different performance to the rest. In this case it is the US market (up only 1.9% in the first four months) that is the elephant in the room, dragging the average lower.
- As we indicated last month, there are various explanations for the weaker US performance, including the strong dollar, the collapse of the oil price, high valuations and the Fed moving in the direction of its first rate hike. The first two factors have driven earnings estimates sharply down, with earnings per share for the US market expected to rise by only 1% in 2015. Earnings growth excluding >>

Equities (II)



Stock markets are supported by strong payout ratios

Figure 3. Global Investment And Payout (US\$bn)



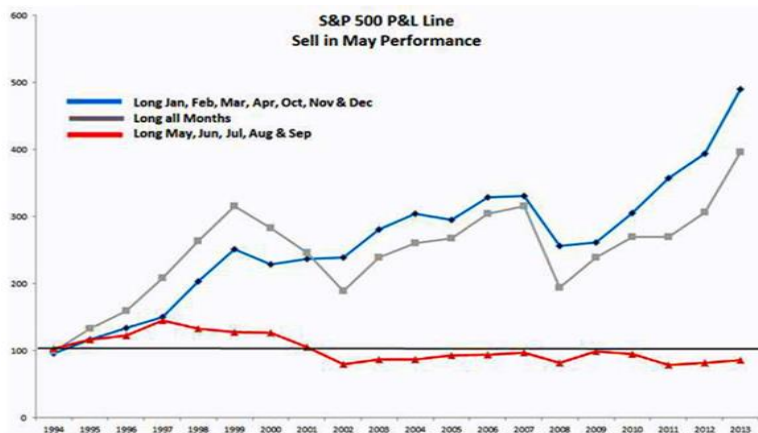
Source: Citi Research, Worldscope, Factset. MSCI AC World ex-financials. Investment = Fixed Capex + R&D expense. Payout = Buyback + Dividends

the oil sector is still at a healthy 8% though. So far we have not been too concerned about the weaker US performance, as we expect the economy to rebound in the quarters ahead. The fact that April has brought a partial reversal of the regional deviation in the major equity markets seems to point in that direction as well. It can be seen in how European stocks delivered negative returns (mainly due to Grexit fears and the sharp reversal of the dollar at the end of the month), while US stocks generally drifted higher, with the Nasdaq even breaking the old high achieved in the year 2000. The US market found some support in the Q1 earnings numbers released up to this point, as they generally came in better than expected, although mostly because forecasts were slashed too much in the prior two months.

- So what will happen from here? The picture is mixed. Sentiment appears to have lost some of its shine, as the most recent macroeconomic data releases in Japan and the US have continued to disappoint, while the Q1 growth strength in the Eurozone is not enough to compensate. The weaker-than-expected data from the US has pushed rate hike expectations forward in time, which has led to a weakening of the dollar. Combined with the ongoing speculation of a possible Grexit, this has led to a correction in European stocks. European earnings have been positive, but it is clear that much depends on the development of the euro.

Equities (III)

It's that time of year again...

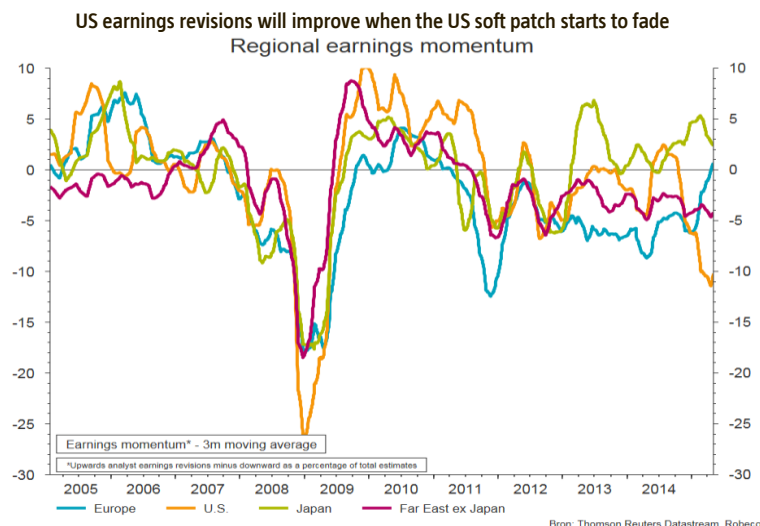


Stocks are not cheap. Than again, what is, these days?

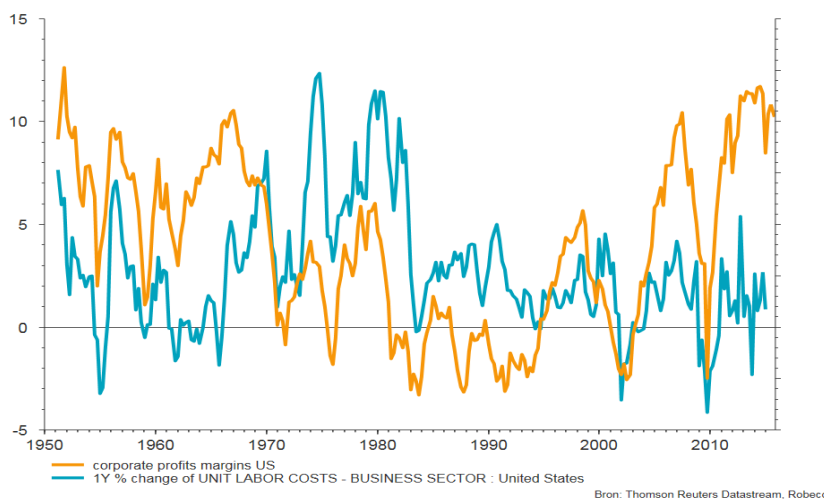


- Added to this is the valuation outlook. Based on the Shiller PE of 28 times past earnings, US stocks are expensive, while the valuation discount that was present in European stocks has been sharply reduced following their outperformance in in Q1. On top of that, we have the fact that we have reached the period in which you traditionally do not get compensated for the risk you take being long in equities.
- It is not all bad news though. For one thing, we continue to be not too worried about the growth slowdown in the US, as we are expecting to see a pick-up in the quarters ahead. The drop in oil prices will start to have a positive impact on consumer demand moving forward, as will the positive wealth effects emanating from both stock and housing markets. Added to this is the fact that share buybacks along with increased M&A activity continues to lent support to stock markets worldwide. Cheap funding is seeping through into stock markets, a factor that we do not expect to see changed in the short run. With dividend yields still above those of 10-year bonds, and ample liquidity out there, the underlying trend should be supportive for stocks. As a last point, momentum in stocks remains positive (based on the QAS models that we use), while the econometric models are broadly positive. All in all, we prefer to stick to our small overweight in equities for now.

Developed Market Equities: regional focus (I)



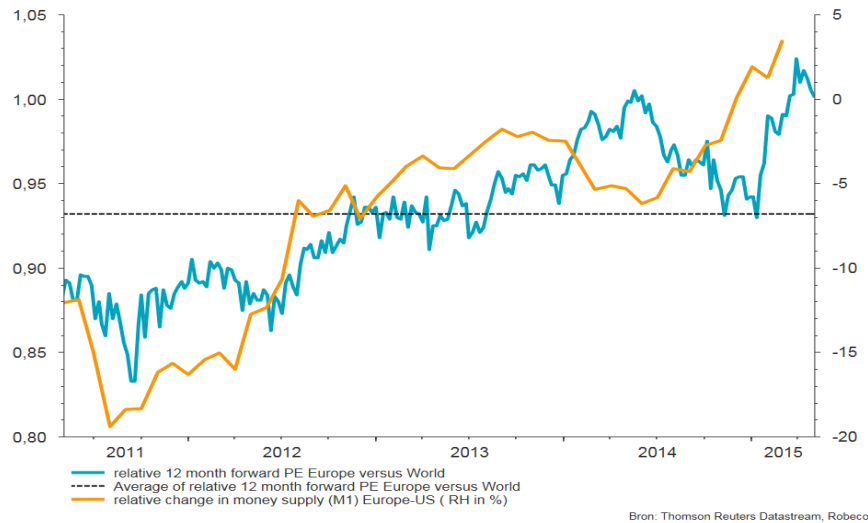
Elevated US profit margins peak historically only when unit labor costs peak



- The US earnings season is well under way, with 409 companies of the S&P 500 reporting their Q1 earnings. Recent US macroeconomic activity data such as the Philly Fed, durable goods orders and retail sales disappointed, and this is partly reflected in negative sales surprises for Q1. Earnings surprised on the upside and US analyst earnings revisions seem to be bottoming out. The effect of the strong dollar, the struggling oil sector and (albeit moderately) rising wages is expected to weaken in the near term. Oil prices rebounded last month and the dollar rally has taken a pause. In the Eurozone, cyclical strength is tapering off somewhat, while the increasingly stressing Greek liquidity situation could have negative sentiment effects for European equities. However, the recent euro appreciation, rising oil price and Greek issue will likely not derail the ongoing cyclical recovery in Europe.
- Diverging monetary policy remains a driver behind returns in local currency, but developments are key in this respect as the ECB has showed its cards. We expect the dollar rally to continue after the pause it now seems to be taking. Although the latest dovish Fed pronouncements brought down rate hike expectations in the market, the first hike is expected in Q3, as we expect a stronger Q2 in the US. In Japan, stock performance is expected to remain healthy as the BOJ will stay in easing mode, given the recent weakness in inflation.

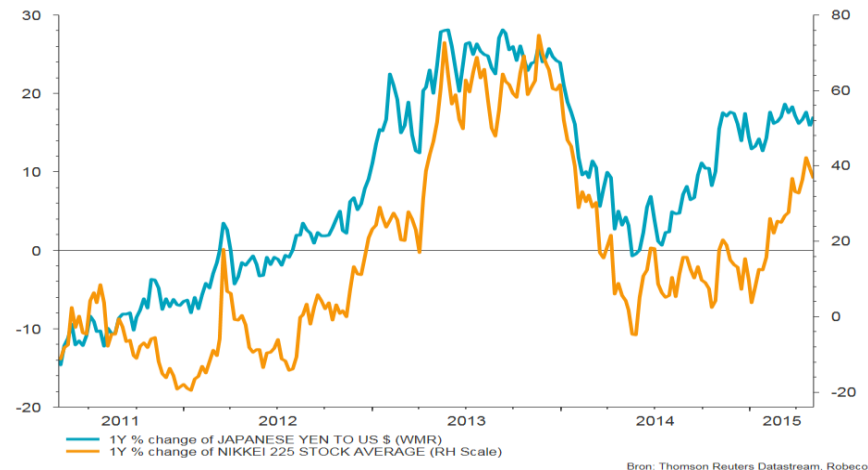
Developed Market Equities: regional focus (II)

European valuations have increased as the ECB relaxed its monetary stance



- Valuations in Europe have increased further, as the sentiment around European equities remained upbeat. Valuations have now risen above historical averages relative to the US and the World index on a 12-month forward price-to-earnings metric, leaving not much upside left from a valuation point of view, although overshooting has been both quite significant and persistent historically (especially during Fed rate hike cycles). These elevated European valuations make multiple expansion more difficult given the recent rise in capital market rates. Meanwhile, the relatively dovish tone by the Fed and the lowered future interest rates expectations by the market, makes stretched US valuations less prevalent in the near term. Japan remains relatively cheap, although now just above its own 10 year average 12 month forward PE at 15.7.

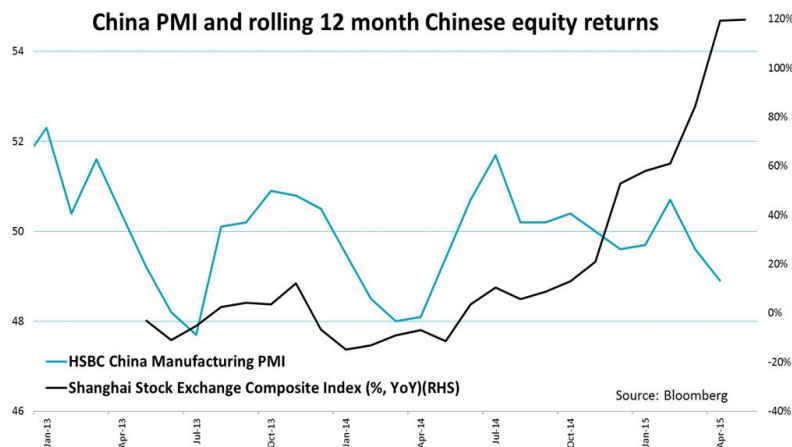
A weaker yen supports the Japanese stock market



- Relative momentum within developed markets is currently the least negative for the Asia Pacific region. Momentum in the US and Europe was negative last month. It seems that Japan has the most room for upward surprises on the monetary front within developed markets. As European corporates now have less tailwinds from a lower euro and falling oil prices, we think Japan holds the stronger cards to be able to rally, also because geopolitical events are less precarious around the Pacific. We prefer an overweight to Japan, and retain our neutral stance towards the US and Europe.

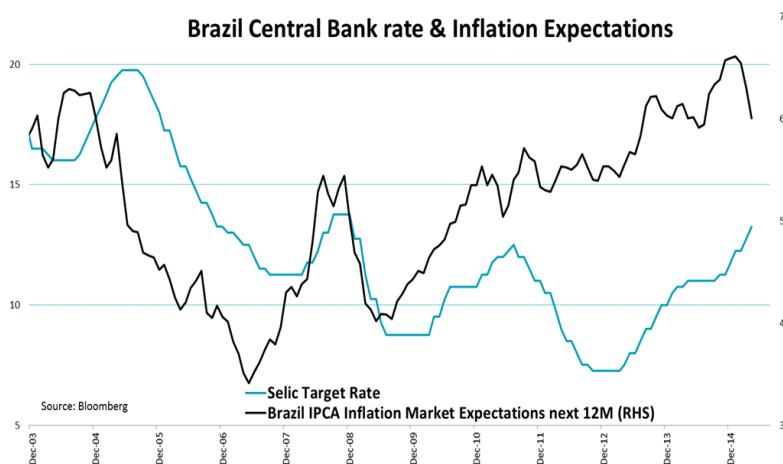
Equities: Emerging vs Developed (I)

China Manufacturing PMI vs equities



- Despite efforts by the Chinese government to speed things up a little, recent macro data suggest China's economy is still slowing. The HSBC Manufacturing Index came in at 48.9 for April, the lowest level in the last 12 months. Other data such as money supply, retail sales and especially industrial products also point to a cooling economy. However, China's stock market is on fire. Over the last 12 months the Shanghai Composite Index has risen by 120%. Anticipating further stimulus (lower interest rates and reserve requirements for banks) and lower house prices make Chinese investors pile into the (local) equity markets. The number of new stock market accounts is skyrocketing, resulting in a massive move in equity prices. However, we doubt that this is sustainable. Valuations have shot up as well and (expected) earnings growth is far from impressive. But with the government in stimulus mode, momentum could stay strong for now.

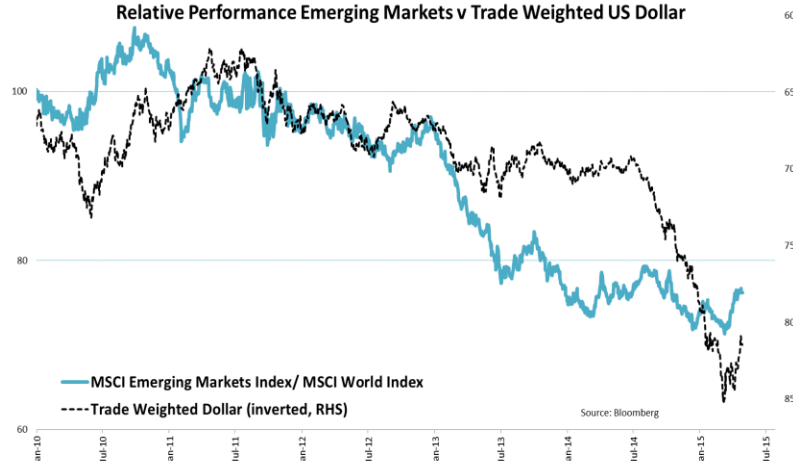
Brazil central bank rate & inflation expectations



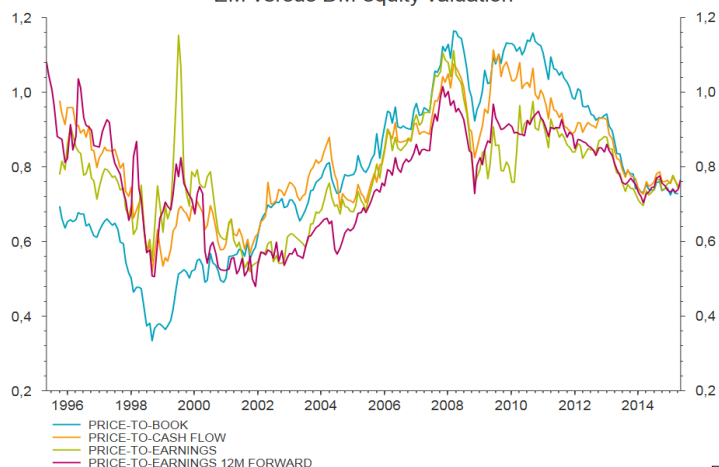
- Russia, also facing growth issues, was helped by a rising oil price in recent weeks. Still, GDP will decline approximately 4% this year, with a marginal 0.50% growth rate next year. Stocks though are very cheap. For Brazil, the end of the hiking cycle may be in sight. June will probably bring another rate increase, but after that the aggressive tightening of Brazil's central bank may come to an end. Also rising commodity prices could improve Brazil's outlook.

Equities: Emerging vs Developed (II)

The strength of the US dollar remains an important risk
Relative Performance Emerging Markets v Trade Weighted US Dollar

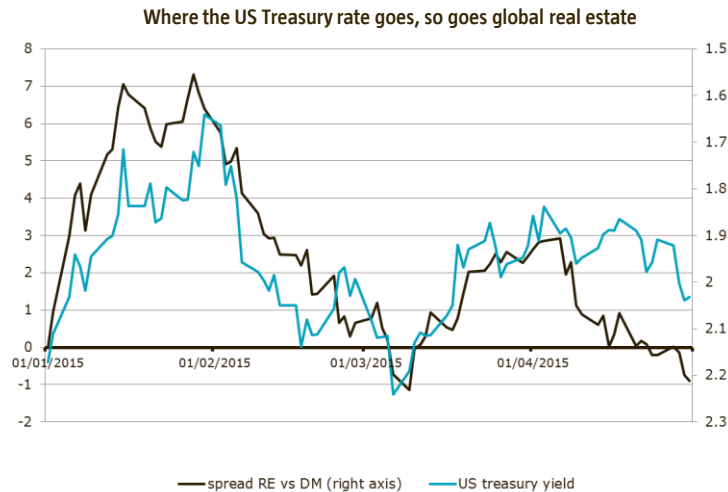


Valuation of emerging markets is attractive
EM versus DM equity valuation



- The trade weighted US dollar has weakened significantly recently. Disappointing data on the US economy, a cautious tone by the Fed, and extreme (long) positioning in the US dollar have resulted in a sharp reversal. A falling US dollar has historically been good for emerging market equities. However, we think that a first rate hike this year is still very much on the table. That said: with many other central banks very much in easing mode, a gradual increase in Fed rates may be absorbed a little better than historical data suggest.
- Valuations in emerging markets remains attractive, especially when compared to recent years. We do think they are cheap for a reason because the fundamental outlook is not all that impressive. In China's case, equities are actually not that cheap anymore after the recent rally. However, in a world where many assets are outright expensive (US stocks, credits and government bonds), emerging markets might look attractive.
- We are neutral on emerging markets. The macro outlook remains subdued, although we do see some improvements in Russia and Brazil. Momentum is strong and valuations attractive, hence our neutral stance towards emerging market equities.

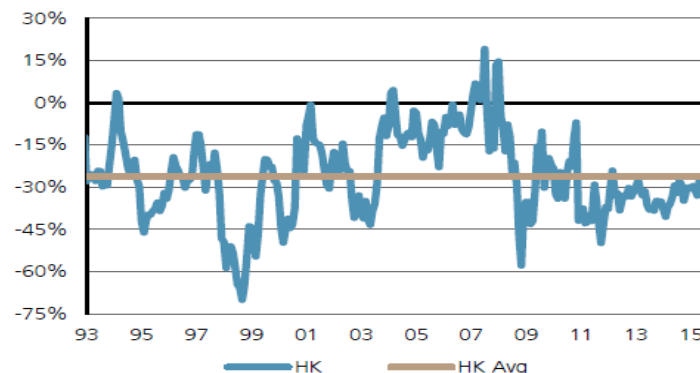
Real estate



Source: Bloomberg, Robeco

Hong Kong real estate is relatively cheap in the developed equity world

Figure 45: Price to NAV

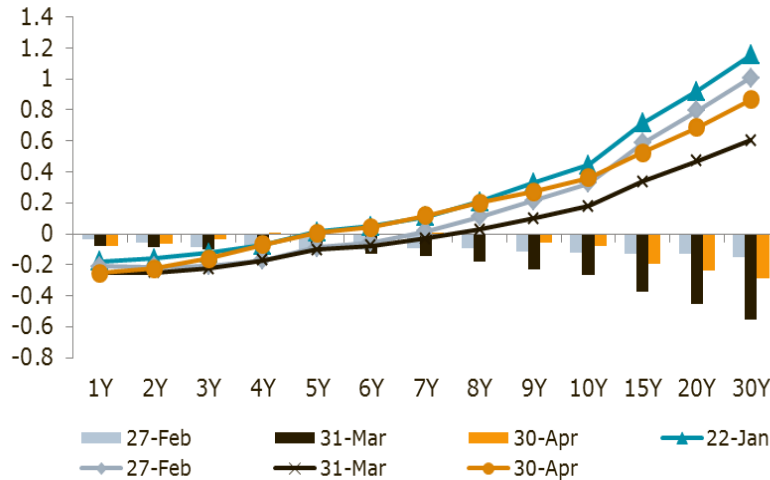


Source: Worldscope, I/B/E/S, DataStream, UBS estimates, as of 30 Apr 2015.

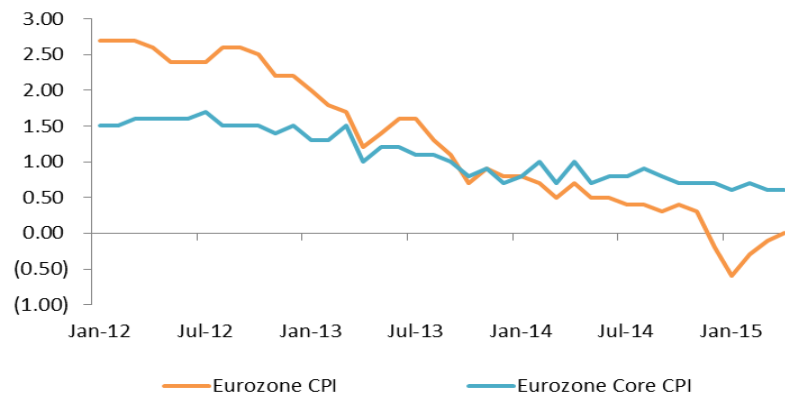
- The 'Where the US Treasury rate goes, so goes global real estate'-mantra is still valid. Except for one week in April when interest rates went down, due to a relatively strong equity market performance, the spread between real estate and equities fell as well. In April, interest rates on US Treasuries rose slightly to just above 2% (see the reverse axis in the chart). Global real estate was down in April, but is still up 3.8% (in USD) in 2015, whereas global equities (in USD as well) are doing little better.
- In the US, it seems that investors are reducing their overweights in REITs in anticipation of the first Fed interest rate hike, although the market expects that to occur after the summer. In Europe, there was some consolidation as well, after the ECB/QE-driven rally. Meanwhile, Asian real estate markets are doing fine. Hong Kong real estate has profited from the surge in the liquidity-driven rally in the Chinese equity market (with a lot of listed developers, they rose about 30%). Hong Kong real estate rose 8.6%, but is still not expensive.
- Overall, there seems to be some consolidation in the real estate market. As said earlier, we're now neutral on real estate, but as signs emerge that interest rates will definitely take an upward direction, we'll turn underweight.

AAA Bonds (I)

German yield curve & change compared to ECB announcements regarding its asset purchase program



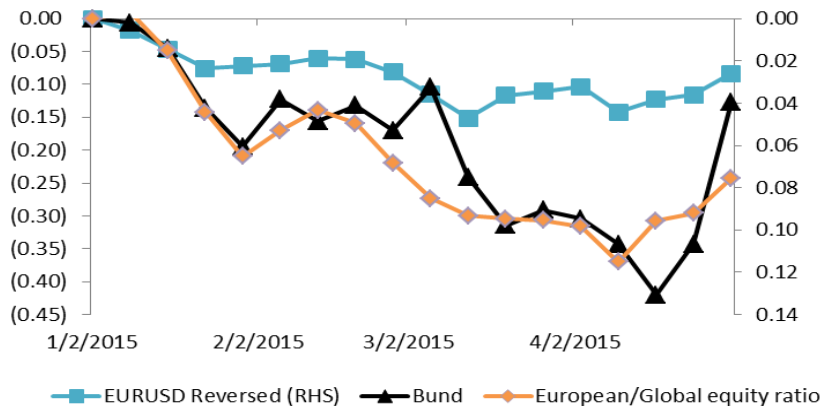
ECB is looking for a sustainable trend in inflation and not blips



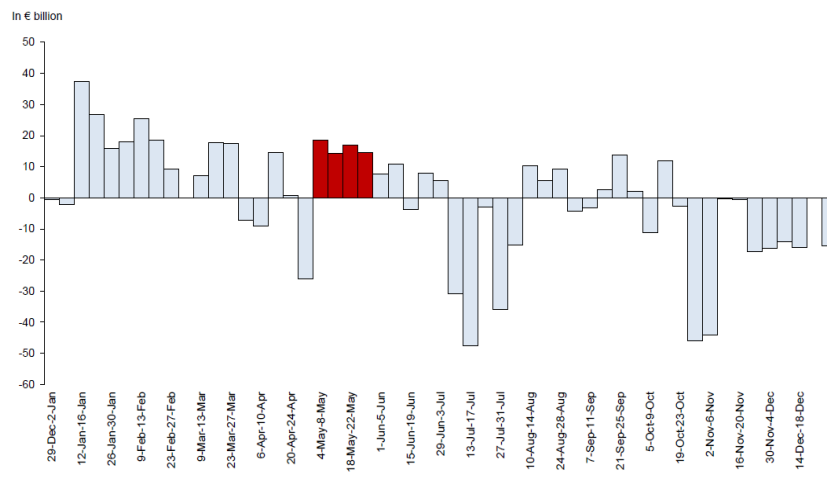
- What a difference a month makes. In April the markets were preoccupied with the self-fulfilling cycle of declining rates and the shrinking pool of eligible bond yields. This month we are all scratching our heads trying to figure out why rates across all tenors have suddenly moved up so rapidly. The most frequently heard reason is ‘positioning’, which normally indicates that nobody really knows the reason.
- For us the main obstacle to further yield compression was always going to be a weakening in the commitment of the ECB to fully execute its bond purchasing program. Either technical difficulties or improving inflation/growth dynamics are potential triggers for a change of heart by the ECB. At the last ECB meeting in April, President Mario Draghi dismissed both these risks. The ECB’s remarks regarding inflation were particularly interesting, as the central bank is looking for a sustained change in the inflationary path, so it is therefore willing to look past short-term fluctuation. For us this means that ECB monetary policy remains on auto pilot and we continue to expect a full execution of the purchasing program. So we are pretty sure that it wasn’t the ECB that triggered the recent spike in rates. For that matter, neither do we think it was due to the Fed, as no major changes were announced at its latest meeting, and continued weakness of US numbers is keeping the Fed cautious.

AAA Bonds(II)

The winners of previous months reversed at almost the same time

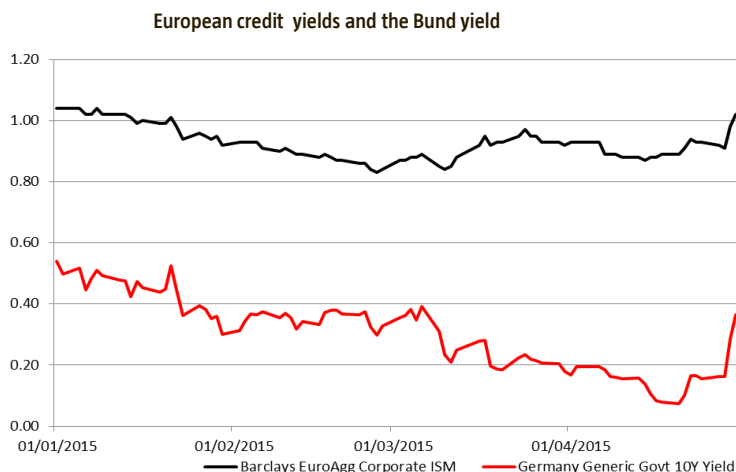


Estimate of net Eurobond supply for 2015: the first half of the year has seen heavy supply



- We agree with the Fed and expect the weakness to be transitory, but up until now the data hasn't provided any solid evidence for this.
- So was it developments in Greece that caused the turbulence? We tend to think that it wasn't. The increase in rates did coincide with an upward move in EUR/USD, which could point to an unwinding of safe haven flows. Unfortunately, developments in Greece remain highly uncertain. Further, given the fact that European equities came under pressure (even underperforming global equities) when rates spiked, we tend to believe that the trigger wasn't optimism over Greece, as we would have expected this to be very positive for stocks.
- Fundamentally nothing has changed and we continue to believe that the mismatch in demand and supply will remain a dominant theme in European rates markets. We do think that the demand and supply theme will play out in the second part of the year. Given the strong positive momentum within the rates market, we decided to close out our current overweight position in European bonds. As we think that the mismatch in demand and supply will remain a theme in the market, we will monitor market developments closely, looking for a favorable entry point to move back to an overweight position.

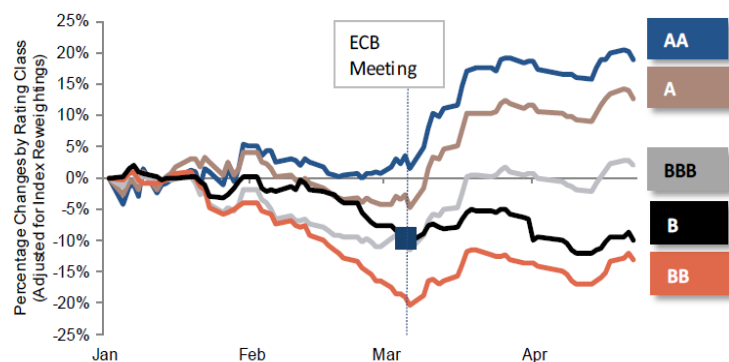
Investment Grade Credits (I)



Source: Bloomberg, Robeco

In search for yield, investors turned to lower-rated credits

Chart 1: European spread changes by rating class this year

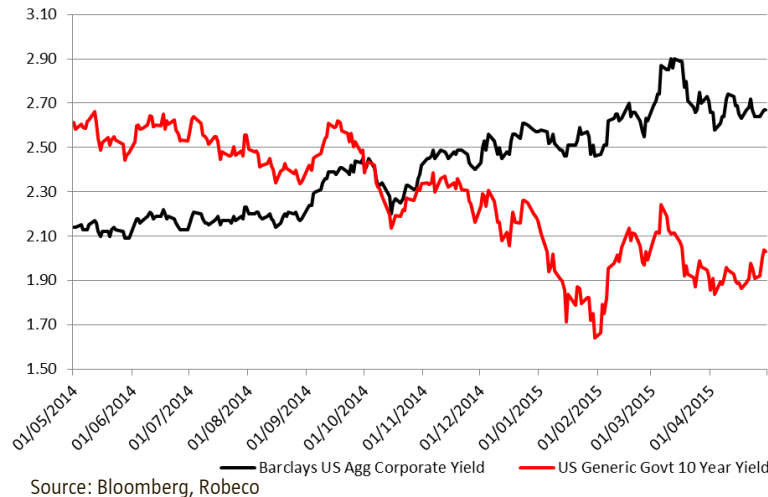


Source: SG Cross Asset Research/Credit

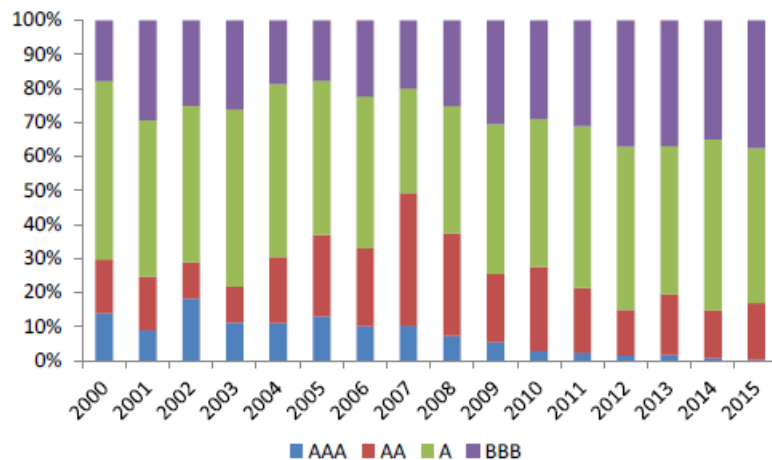
- Yields on European credits closed above 1% in April, but that was mainly due to the sharp rise in government bond yields. Where the government bonds market was in some kind of an 'unwind' mode, the yield on investment grade credits were relatively stable, rising 'only' about 10 bps during the month.
- The above is true for the credit market as a whole, but there remains a difference in how credits behave. Spreads for lower-rated credits moved downwards in the first months of the year, but after the start of the ECB bond-buying program in early March, they didn't really catch up. This was contrary to movements in spreads in higher-rated credits after the ECB started buying; investors clearly turned to the lower-rated segments. The yield on higher-rated credits remained stable, and with a fast-declining government bond yield, spreads against AA and A paper widened quickly. So, the ECB actions clearly had an indirect impact on credit pricing.
- Although yields are looking slightly more favorable, they're still low compared to high yield. Besides that, there are several uncertain factors that could impact the rates markets significantly – such as Greece, for instance. With that in mind, we keep our slightly underweight position in European credits.

Investment Grade Credits (II)

US credit yield and US Treasury



Credit quality of new issuances is lower

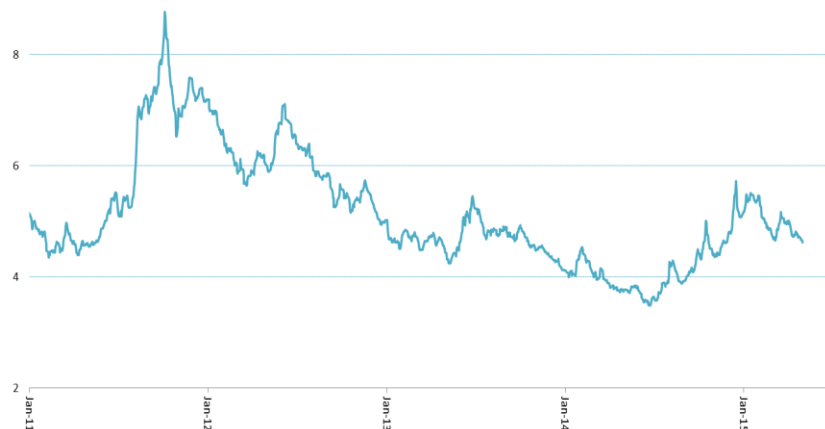


- European investing in the US credit market is still at a high level. US yields for European investors are attractive, helped by the EUR/USD exchange rate. US spreads have widened for several months. Yields remained more or less flat in April, close to 2.7% in USD. So even with a higher EUR/USD at 1.12, there's still an interesting yield gap from an investment perspective for European investors.
- On the macro side, recent data suggest that the US economy is slowing down a bit, but we expect that second-quarter figures will turn out to be better. The earnings season wasn't that bad for corporates, and a majority of companies were able to beat their estimates. Besides that, M&A activity remains at a good level, helped by the low interest rates (and, as said, US corporates have issued a lot in euros lately). The quality of the new issuance has been lower with more BBB issuance than ever. But, all in all, the current credit environment in the US is supportive.
- Keeping the search-for-yield mantra in mind, US credits are still an alternative for their European counterparts. Investors looking for yield could consider US credits as an alternative, but they must be aware of their slightly higher risk profile, and the currency effect.

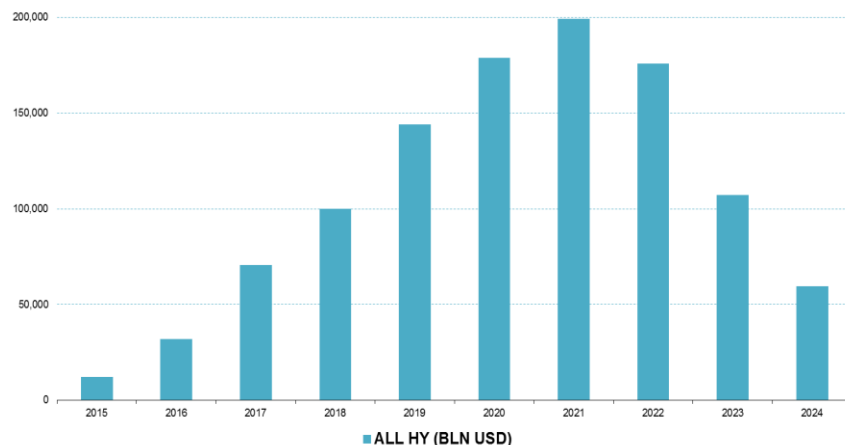
High Yield (I)

High yield spread

Global HY Spread



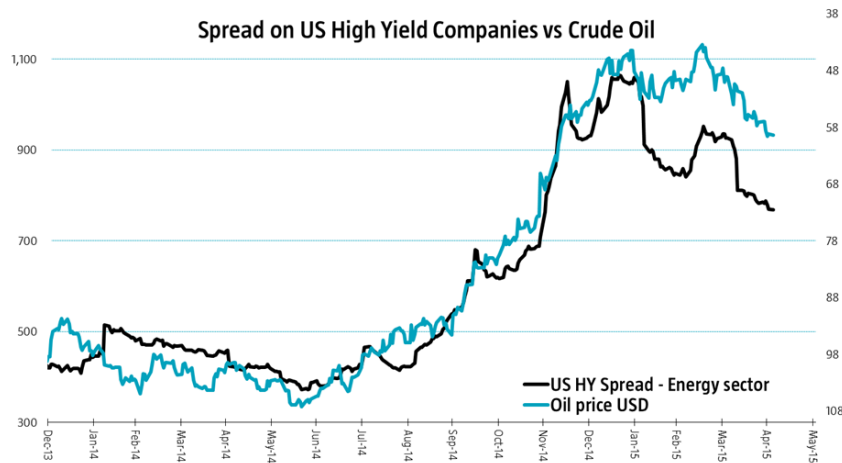
Maturity wall



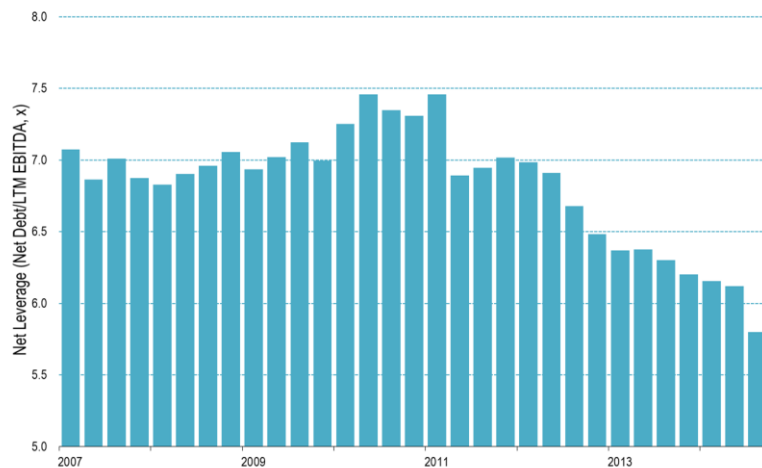
- High yield bonds were the best-performing fixed income-related asset class, and also the only one that realized a positive return. Rising rates on government bonds, especially in Europe, were cancelled out by a further tightening of high yield spreads. Compared to the end of March, spreads have tightened by 40 bps, and by 60bps since the start of the year.
- High yield companies continue to benefit from reasonable economic circumstances. US GDP Q1 growth disappointed, but is expected to recover in Q2. In Europe, economic data have surprised on the upside, as a lower euro and falling oil prices start to take effect. Historically, periods of economic growth that are neither too slow or too fast have benefitted high yield bonds.
- The economic outlook implies that default rates will continue to stay low for a while longer. The US default rate is expected to bottom this quarter at somewhere around 1%, which is low by historical standards. After that, defaults are expected to rise a little, but will stay below the long-term averages. Due to the enormous appetite for higher-yielding bonds, refinancing debt is going smoothly. The graph shows that for the next two years or so, the amount of debt that has to be refinanced is relatively small and is unlikely to trigger many defaults.

High Yield (II)

Leverage ratios are increasing...

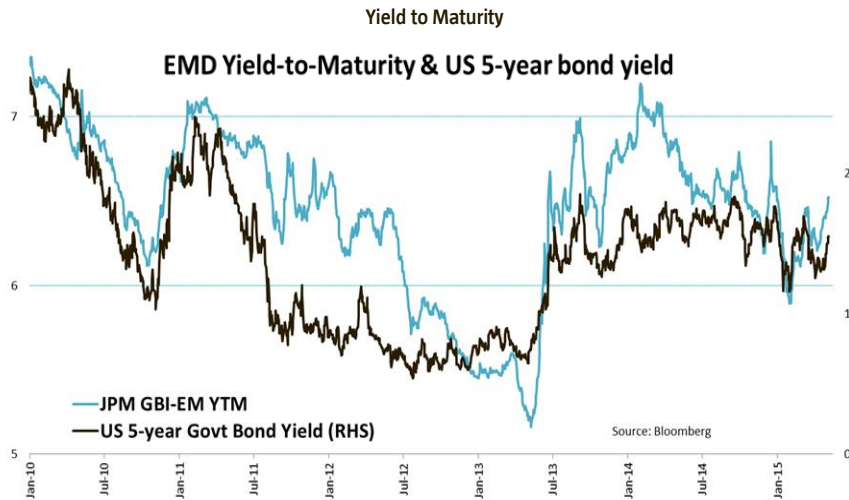


... but effective interest costs are falling



- Oil prices remain an important driver for high yield bonds, especially in the US. Oil prices have rebounded significantly from their lows in March, rising by roughly a third, resulting in a substantial spread tightening of US high yield debt companies. While we do not rule out oil prices falling again because of the demand-supply imbalance, we do not expect spreads to widen by as much as in March, when investors overreacted as a result of the sharp fall in oil prices.
- Although a first rate hike by the Fed would lift short-term rates, this isn't necessarily bad news for high yield bonds. Hiking cycles have traditionally been accompanied by better economic prospects. Higher interests are also unlikely to result in balance sheet issues, even though the leverage ratio of high yield companies has steadily increased the last couple of years. This is less troublesome when current interest rates are taken into account. Interest costs have actually gone down as bond yields have fallen sharply, and we don't expect them to go up rapidly anytime soon.
- We continue to overweigh high yield bonds. The asset class offers an attractive valuation against government bonds, credits and cash.

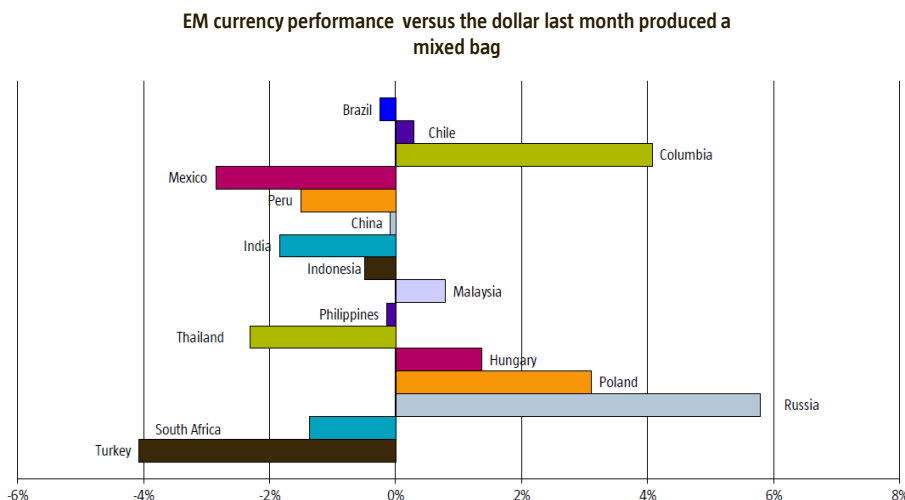
Emerging Market Debt (I)



- Spreads on emerging market debt has hardly moved over the last few months. At the end of April, the spread over 5-year US Treasuries was 501 bps, compared to just under 500 at the end of March. However, since bond yields in the US moved up significantly, the yield to maturity also increased, resulting in a negative return month for EMD. In contrast to previous months currencies were more of a mixed bag.

- Disappointing macro economic data out of the US have pushed back expectations about the first rate hike by the Fed. This has led to a substantial weakening of the US dollar. As we stated last month, a more dovish tone by the Fed could cap emerging market currency losses going forward, which is exactly what happened in April.

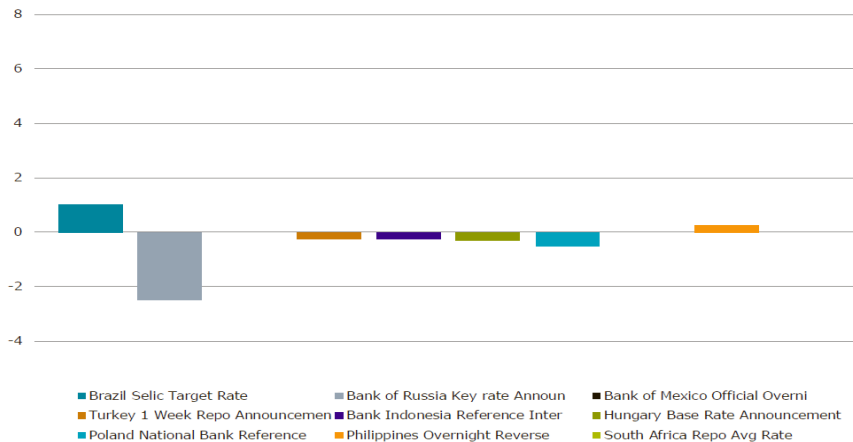
- Currencies remain the Achilles' heel of emerging market debt, however. While more dovish than a couple of months ago, the Fed left the option of a rate hike this year right on the table. To could lead to renewed pressure on emerging currencies, especially those of countries with a relative large current account deficit.



Emerging Market Debt (II)

EM central bankers in easing mode

-3M Change in EM Policy rates



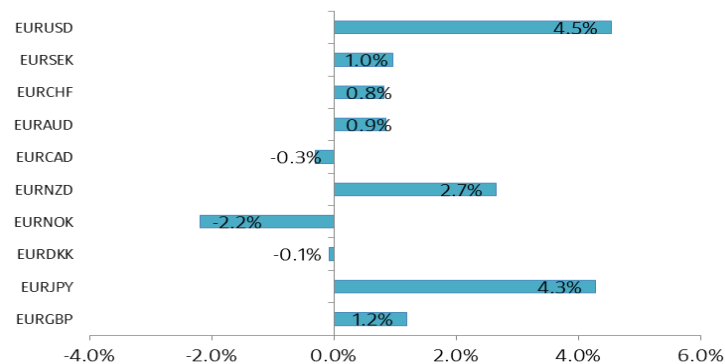
Yield EMD vs High Yield
Yield to Maturity



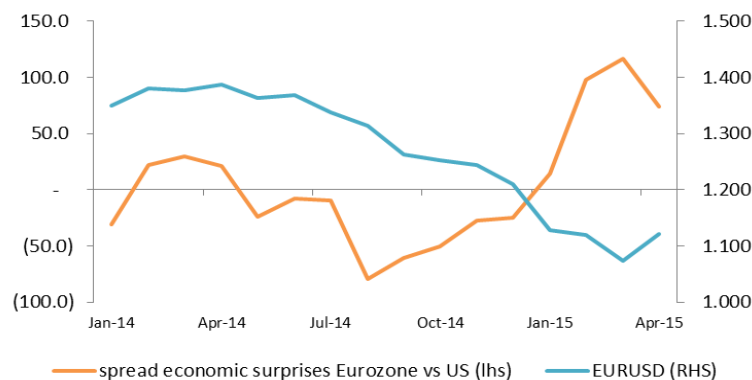
- That said, the current account deficits of commodity-exporting countries could improve as commodity prices have rebounded quite strongly. We have already seen upward revisions for Russia and, to a lesser extent, for Brazil and South Africa.
- On average, emerging countries are in easing mode, Brazil being the strong exception. Deflationary pressures around the globe have given room for central banks to either ease their monetary policy, or to maintain already low interest rates. However, given the rebound in commodity prices, the window of opportunity for further easing has shrunk. Brazil is the sole outlier as Russia has aggressively cut rates again as capital outflows have decreased. Brazil probably has to do a little more to get inflation expectations anchored again.
- From a valuation point of view, emerging debt looks more attractive compared to last month. The graph shows that the yield to maturity on EMD is now above that of high yield bonds. EMD is now the highest yielding asset within the fixed income space. However, we stay neutral on EMD for now. First, the run-up in yields in developed markets has not lost momentum at this point in time. Second, we expect macro economic data from the US to improve, which could trigger another round of US dollar strength.

FX (I)

The euro is still depreciating against most G-10 currencies



The US dollar is catching up with bad US data

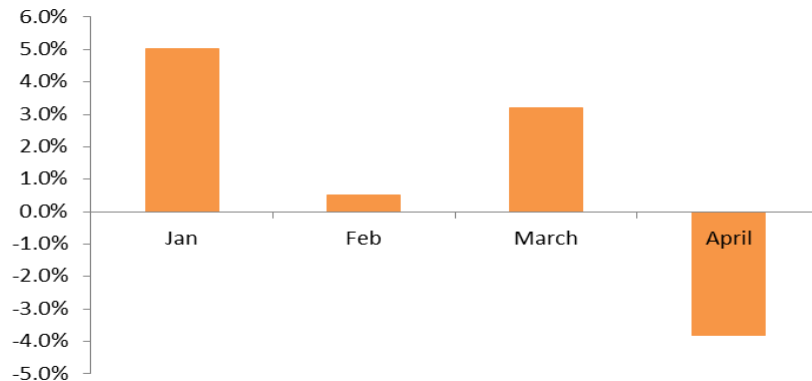


Source: Societe Generale

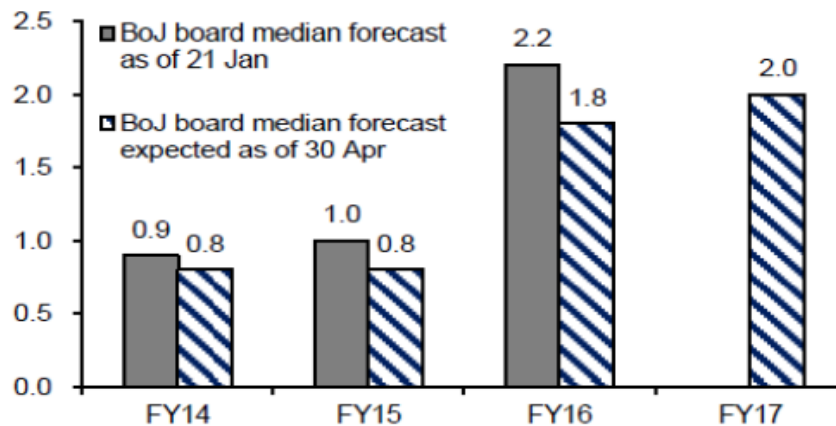
- April was the month in which the euro staged a comeback. Within G-10 the single currency only depreciated against the Canadian dollar and the Norwegian krona. Both these currencies are closely tied to the oil price, which, just like the euro increased substantially in April. Both Brent and WTI appreciated more than 10% during the month.
- Within G-10 the euro posted the biggest gains against the US dollar in April. What we have argued frequently over the past months is that with the announcement of QE, the ECB has become less relevant for the euro as long as it remains committed to fully executing the program. In April, Draghi firmly reconfirmed this commitment. He was also very clear on what the minimal precondition should be for a change in policy. A sustained trend change in inflation that makes achieving the inflation target of around 2% is highly likely. This practically raises the bar for European data to impact monetary policy.
- So for clues regarding the future path of EUR/USD, we need to look towards the US, namely US monetary policy. What was striking in the first few months of the year was that while short-term rates more or less closely followed the gyrations of the data, the foreign exchange >>

FX (II)

First negative month for the dollar index in 2015



BoJ expects inflation to keep moving towards its target



- market completely ignored them. In April however, the currency market finally started paying attention to the data and this put pressure on the greenback. In April the dollar depreciated against every G-10 currency. We continue believe that the weakness of the US is transitory, and still think that the Fed will hike this year. But just like the market, we would like to start seeing some improvement to confirm this belief.
- We continue to expect another policy move by the BoJ. We must admit that the latest comments from BoJ Governor Kuroda don't point to any near-term policy change. If anything, Kuroda seems willing to look pass the recent drop in inflation. In his latest comments he put a lot of emphasis on the positive development in inflation expectations and slowly improving wages. Just as with the euro, the Fed will determine the future path of USD/JPY.
- We stick to our view that the most likely path for the dollar is up, with Fed policy being the driver of currency moves. We therefore continue to look for opportunities to add long dollar positions ,either against the euro or the yen.

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