ROBECO
The Investment Engineers

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 | **Kees Verbaas,** Head of Fundamental Equities

Building on momentum

The proverbial 'wall of worry' looks less daunting as we enter Q2 with the US economy continuing to show resilience and Europe's economy appearing to have bottomed and inflation down, if not out. At the end of last year this seemed to be a bull market running on euphoria over AI but this quarter broader strength has developed as we hoped it would, with record index highs being hit in Europe also.

The view that there will be a sting-in-the-tail of higher rates or that the weak commercial property sector will drag the financial system, and then the wider economy, into a slump, is now a minority one. It's so far, so good in 2024, and the market is raising year-end targets. We are now about to move into the dovish period of the cycle, albeit it at a slower pace than anticipated by investors. The recent interest rate cut by the Swiss central bank confirms that view.

In emerging markets, many central banks are lowering interest rates. Brazil for instance passed its sixth cut already. With inflation falling in tandem, it allows even more room for policy relaxation. Is this all too good to be true? We don't think so, and believe emerging markets can do really well this year.

Looking at the global election cycle from a financial markets' point of view, it's all been smooth so far and in Q2 we don't expect any surprise from India either. Of course the big one all investors are watching is in November in the US. Whoever wins, the stock market promises a good place to be with both Biden and Trump likely to pursue expansionary fiscal policies into a monetary easing cycle. That makes any coming correction, even a steep one, look like an opportunity.

In this edition of the Quarterly we give you our outlook for developed and emerging markets, an interview with our European Stars strategy lead Mathias Büeler, perspective on two Industrials conferences in Miami, a primer on transition finance, a contrarian view on Japan real estate, and we introduce our new Emerging Markets ex-China strategy. Enjoy!

DEVELOPED MARKETS OUTLOOK

Audrey Kaplan, Portfolio Manager

Overexuberant but pockets of value

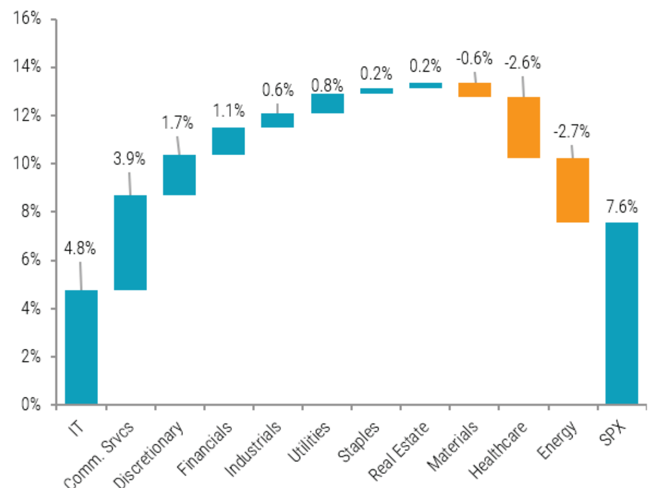
The market is in ‘La La Land’ but we see pockets of high quality and attractive valuation. European equities are at a steep valuation discount to the US and are likely underowned.

The MSCI World Index has rallied 111% since March 2020 (to 22 March 2024), a 20.7% annualized return, and is trading above its 50-, 100- and 200-day moving average. The S&P 500 has achieved an even more impressive 125.6%+ return in the same period, a 22.7% annualized return. The extraordinary rise in US market value has propeled it to more than 50% of global markets – a 20-year record. According to Goldman Sachs, the share of US market capitalization relative to GDP has risen steadily in the US, while the rest of the world has lagged. Despite many European companies increasing their foreign sales exposure to the US from 44% to 60% over a 20-year period, most European countries still have a smaller market-cap-to-GDP ratio than the US. Switzerland (home to Nestle and Roche, for example) and Denmark (e.g. Novo Nordisk) are exceptions.

Global market fueled by US earnings and less downside risk, leading to higher valuations

Depending on which metrics you choose, some stocks have reached silly valuation levels. The IT and communication services sectors continued to achieve strong earnings growth – including some ‘Magnificent 7’ companies. If you exclude these sectors, S&P 500 earnings were negative in the fourth quarter of 2023 (see Figure 1a), and in the past few quarters. In the US, energy shares were the biggest earnings laggards in the last quarter of 2023 – and more so in Europe (Figure 1b overleaf). European earnings were not aided by IT and communication services sectors the same way as in the US. While Europe had the best earnings growth, in healthcare, for example, growth was still below 2%. And sectors including consumer discretionary, consumer staples and IT overall failed to achieve growth in the final quarter of last year.

Figure 1a: Sector contribution to S&P500 Q4 2023 earnings growth



Source: Bloomberg Finance L.P., JPMorgan, Robeco – March 2024.

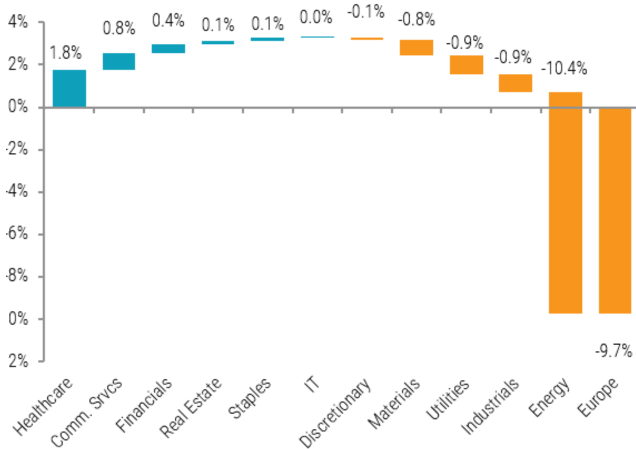
Aside from healthcare, these are sectors where you find the biggest European companies, including well-known brands like LVMH, ASML, Nestle and Hermes.

What does this say about the rest of 2024?

Early signs give us concern that earnings might not re-accelerate broadly during 2024. According to FactSet the number of S&P 500 companies issuing negative EPS guidance for Q1 2024 are higher than average. As of mid-March, 74 companies have issued negative guidance which is above the 5-year average (58) and the 10-year average (62). The percentage of companies issuing negative guidance is also above the 5- and 10-year average.

“ Eurozone equities are at a two-standard-deviation valuation low versus the US

Figure 1b: Sector contribution to Europe Index Q4 2023 earnings growth



Source: Bloomberg Finance L.P., JPMorgan, Robeco – March 2024.

Additionally, more than half of companies have issued negative EPS guidance for the full-year 2024. This gives us cause for concern as slowing earnings, in coordination with the lofty S&P 500 forward 12-month P/E ratio – at 20.7 this is also above the 5- and 10-year average – raise flags.

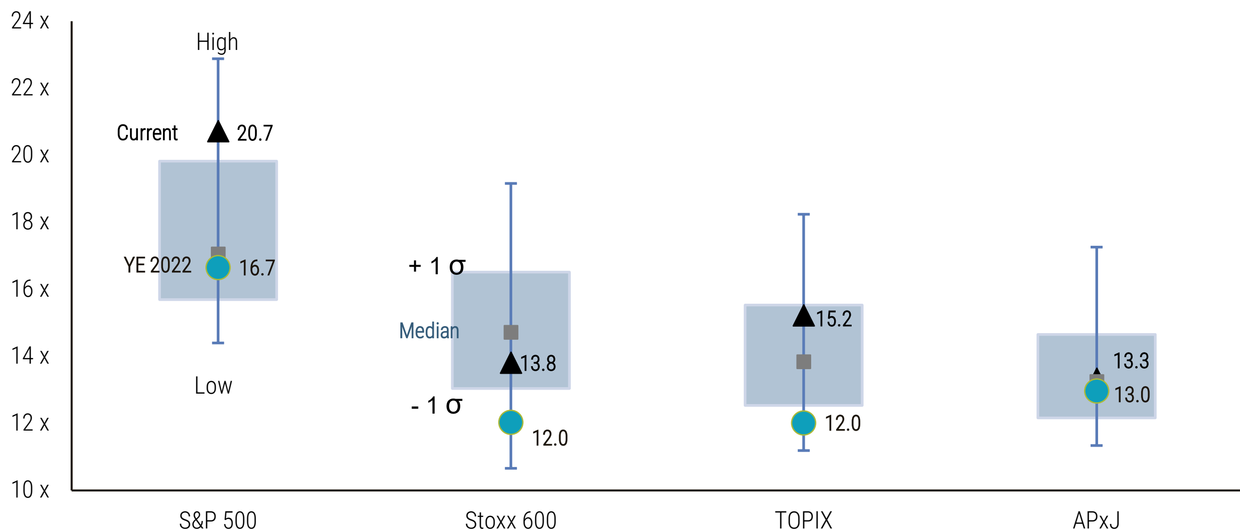
Europe offers an interesting entry point from both a cyclical and fundamental perspective

European earnings aside, it seems that not a day goes by without negative headlines for Europe. We read pronouncements like “Germany, the sick man of Europe”, “No end to the economic gloom in Europe”, and “the champagne era for luxury is over.” Here in Robeco’s home market, ASML criticized the Dutch government for not investing enough and is considering moving its investments outside the country. Businesses still dream of listing in New York – and not Amsterdam or Paris – as the US equity market is broader and deeper, more liquid, and with less regulation (including on ESG regulations), while investors tend to be less risk adverse. However, where were the headlines announcing European equities hit a new all-time high in March? With momentum (tech) and growth being *en vogue* right now, Europe as a region is likely underowned, illustrated by 40 weeks of outflows over the last year. In fact, valuation argues that European equities are cheap relative to US ones (Figure 2) with P/E 12x versus US 20x. Eurozone equities are at a two-standard-deviation low versus the US.

Global positioning as we enter Q2 2024

We find diversification and alpha opportunities in the US, Europe and Japan, in sectors including healthcare, consumer discretionary, financials and very specific areas of materials and industrials. We are underweight in consumer staples and utilities.

Figure 2: Global market valuation distribution - NTM P/E multiple distribution over the last 10 years



Source: Factset, Goldman Sachs Investment Research, Robeco – 19 March 2024.

Wim-Hein Pals, Head of Emerging Markets Equities

First buds of springtime visible in EM

Emerging markets have been in the shadow of the roaring S&P 500 but with a strong earnings outlook and tentative signs of stability in China, springtime may be here. Elections and anticipated reforms could also see Korean stocks re-rate.

After four consecutive months of emerging market (EM) underperformance relative to developed markets (DM), the trend shifted in February and EM equities outperformed their developed counterparts. China's performance played a role in this, as Chinese equity markets started to recover from the mid-January trough and a prolonged period of de-rating. The rebound was supported by stronger economic data in China, ranging from better-than-expected retail sales to improved industrial production growth. The stimulus packages rolled out by the central government in Beijing over the last 9 to 12 months seem to be slowly filtering through into the real economy. Are these events the first swallows that will make the Emerging Summer or is it just a head fake? Based on consensus expectations for earnings growth in 2024 (in excess of 18%) and the improving sentiment towards the asset class including China, we remain constructive on EM. The persistent valuation discount of around 30% relative to DM supports our long-term thinking in this regard.

EM election outcomes could be pivotal

The global election cycle will be pivotal in EM for the remainder of 2024, with more than half of the world's population headed for polls this year. Taiwan was the first to kick off. No significant changes to business-friendly and equity market-supportive policies are expected following the Progressive Party's (DPP) victory in January. The official outcome of the February election in Indonesia was announced in late March, and confirmed that the candidate of President Jokowi's ruling party won. Economic and financial policies will not change significantly under president-elect Prabowo, which is a positive factor for the corporate world and the equity market.

India will follow suit in the second quarter, with the exact date still to be announced. The re-election of the ruling BJP party and premier Modi is the expected outcome. South Africans will queue up at polling stations in late May. There are still many moving parts in this country from an election-outcome perspective, which is consistent with our cautious approach to this market given its uncertain political and economic situation. In Mexico, where the population will vote in early June, the incumbent president Andrés Manuel Lopez Obrador is prohibited by the constitution from pursuing re-election for another term. Mexico is therefore sure to get a new president.

Targeting the Korean discount

Of all EM elections, the South Korean election of 10 April is among the most interesting from an equity point of view. Going into the election, the key question for investors is whether the famous 'Korean discount' will soon become a thing of the past. Listed Korean companies have for years traded at discounted valuations relative to those in other emerging markets. Regardless of the valuation metrics one considers – whether price to book, price to earnings or cash flow per share – Korean stocks are undervalued. Between 2014 and 2023, the price-to-book ratio of Korean companies was only one third of the MSCI EM average. A comparison with Taiwan, which is quite similar from a market-structure perspective, is illustrative: MSCI Korea trades at 1.1 times book value, compared to 2.4 times for MSCI Taiwan; and Korea's price-to-earnings ratio is at a 20% discount to Taiwan's. The most plausible explanation for the Korean discount is the poor and non-transparent administrative culture in the country.

"These reforms are essential to making the Korean pension system sustainable

The family-run 'chaebols' are not known for taking the interests of minority shareholders very seriously. The board culture is also associated with low dividend payments and few share buyback programs; the resultant low return on equity is another major cause of the low valuation. On average, Korean companies pay out only 20% of their profits in the form of dividends, compared to 55% in Taiwan. By comparison, China pays out an average of more than 35% of profits to their shareholders. To deal with the Korean discount once and for all, and thus raise the valuation to a structurally higher level, the Korean government and the regulator have recently announced clear measures. Companies will need to report price-to-book value in conjunction with their return on equity. This will put the laggards in the spotlight and at the same time encourage them to come up with a plan of action to increase returns and thus structurally raise enterprise value. This approach is reminiscent of the Japanese initiative launched a year ago and which has now led to the recent all-time high for the Nikkei index.

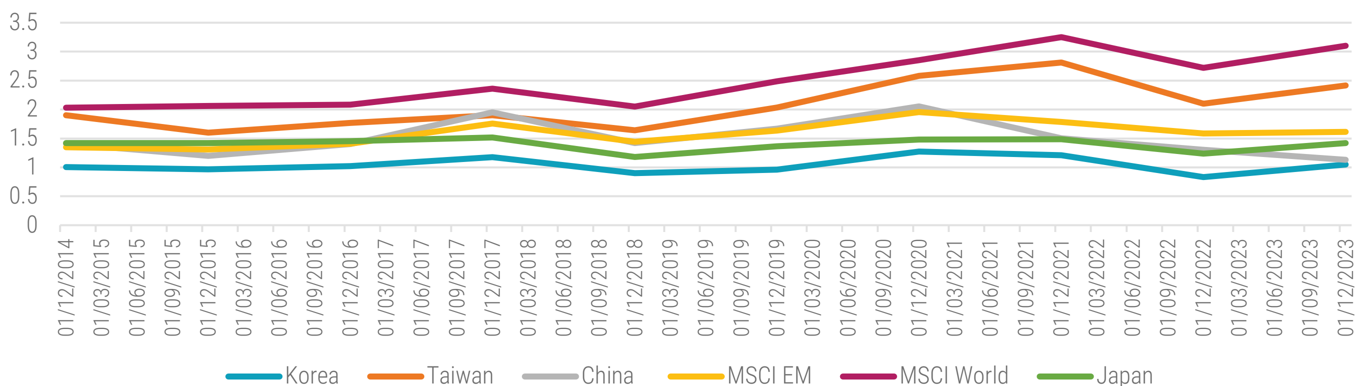
Upgrading shareholder value

Korea's President Yoon has made a strong case for substantially reducing inheritance tax. Currently at between 50% and 60%, it has a significant impact on the families whose ownership is eroded from generation to generation and who seek measures to maintain control of their business. Maximizing shareholder value is therefore low on the priority list of such families.

These reforms are essential to making the Korean pension system sustainable. The Korean national pension fund has huge stakes in the Korean stock market. An added factor is the extremely low birth rate in Korea – the lowest among OECD nations. Improving the performance of the Korean stock market is therefore one of the most critical issues for Korea. In turn, the key to the success of the reforms lies in the extent to which any measures are embraced by the business community and are implemented through stricter policies or new legislation. We are certain no proud Korean company wants to see its family name on top of the list of worst-performing companies in terms of returns and valuation metrics.

In summary, we believe that the election outcome could result in stricter regulation being imposed. In our December 2023 Quarterly we mentioned the benign Korean earnings picture. The consensus earnings forecast for 2024 is a rise of more than 65%, mostly related to IT hardware companies. This expected earnings bounce after last year's 30% earnings decline, in combination with the Korean discount, is the major reason for the structurally overweight stance on Korea in our emerging markets portfolios.

Figure 1: Price-to-Book ratio Korea vs peers and indices



Source: Bloomberg, MSCI, 1 January 2024.

INTERVIEW

Mathias Büeler, Head of Sustainable European Equities

"European equities are underestimated and underowned

Mathias Büeler is lead portfolio manager for the Robeco European Stars equity strategy. Here he talks about his background in investing, his investment philosophy, and why he thinks European equities are attractive.

What originally got you into investing?

"I shamefully admit to having been sucked into investing in technology stocks during the dot.com bubble with the typical experience of a young speculator… easy gains and even easier losses. Still, I was hooked, and I discovered that investment management is such an appealing activity where you can find a lot of intellectual stimuli and apply the entire spectrum of economics, finance and business studies. I sent out dozens of cold applications for buy-side roles. Only after taking on a different role first did I manage to get into sell-side research and eventually the buy-side at Robeco."

What makes a good stock?

"I learned that there are many ways to generate good risk-adjusted returns. An investor has to settle on an approach that fits his general belief system while remaining open-minded to adjusting for errors within that framework. I have a holistic view and focus on the various drivers of returns – rather than one specific element."

"It starts with the quality of the underlying asset. 'Quality' has become a bit of an overused term and I consciously apply a broad definition that is not purely tied to easily identifiable financial metrics. It can be consistently high profitability, exposure to an attractive industry, dominance in a special niche, a highly effective growth algo, an underlying theme, or a unique business model. Quality is only a necessary, but not sufficient condition. What makes a good company turn into a good stock ultimately is the expectations framework and whether such qualities are adequately priced: the ability of a company to sustainably generate economic profits ahead of market expectations is what provides superior returns."

What's your biggest lesson learned over the years?

"There have been dozens! A main take away has certainly been a recalibration of short versus long-term considerations. 'Temporary' can be several years and the path to the 'long term' can be painful and long. Near-term considerations, the famous voting machine, should not be ignored even for the most attractive long-term stories. In the long run, we are all dead…."

How do you see European markets at the moment?

"The European market is exceptionally diverse. The region offers the highest geographical revenue diversification of any global region. The adage 'the market is not the economy' holds particularly true for Europe. There are many high-quality, dominating and strongly growing firms across sectors, and often at a discount to international peers."

"The fate of many European companies is not simply tied to the political landscape or even GDP growth in the region. That is a persistent yet erroneous view I often sense toward the region. While many strategists have been repeatedly burnt by calling Europe 'cheap', I do think European equities are largely underestimated and underowned – a set-up that could bode well for future returns. Europe is home to attractive investment opportunities, with potentially higher expected returns than elsewhere over the long term. Yet, we must be realistic. In today's market regime, these features will only be rewarded if money flows shift and allocators start acknowledging the risk-return advantage and lose their obsession with the US."

Europe does not have a Magnificent 7, what's your view on the region's technology stocks?

"One must understand the fundamental differences of the European technology sector versus the US. It is only around 6%

Mathias Büeler, Head of Sustainable European Equities

“Some outstanding tech compounders are flying below the radar

of the MSCI Europe, around the same as the traditional energy sector. Half of it is semiconductor and equipment companies and I don’t have to tell anyone about the fundamental attractions of the Dutch equipment makers. Because of the smaller size of the sector, some outstanding tech compounders are flying below the radar. Whether it is design, construction and visualization software for various industries, security technology, ERP software, IT services or even consumer electronics hardware, European tech companies occupy strong positions in select attractive niches. Yet, bear in mind that there are not that many investable stocks in our market cap and liquidity spectrum. The dearth of global tech champions in Europe does not reflect well on the innovation power of the region. So, I’d highly recommend looking beyond tech and large benchmark weights. There is plenty of magnificence to be found!”

Luxury goods companies are typically European. Do you like the sector?

“The sector has gained massive popularity among investors. While the leaders in the industry have grown strongly, not all luxury companies have benefited equally. We do have to differentiate. The right exposures and management quality have caused material return differences. Some stocks in the sector lagged even the broad market over multiple periods. In my view, investors have become complacent, not clearly distinguishing between structural trends and temporary boosts to demand through the zero interest rate environment, elements which are outside of the control of these companies. There have been difficult times for the sector in the past as a result of its sensitivity to the global economic cycle, in particular Asia, as well as fashion missteps. Today, I think ‘long luxury’ is not the easy trade that it used to be. There are select opportunities. The jewelry segment is gaining momentum that is not fully reflected in the shares.”

Which trends and opportunities are most prominently reflected in your portfolio?

“Since our Sustainable European Stars strategy is a high-conviction, concentrated portfolio, I attach great importance to diversification. As much as possible, I quite consciously avoid clustering around themes too much as it gives rise to sector and factor tilts. Nonetheless, a skew toward investing in highly value-add industries such as consumer and tech, a preference for quality and durable businesses, and long-term compounding are underlying themes structurally present in the portfolio.”

What’s been your best investment ever?

“It’s tempting to look at the highest return to answer that question, which would be fraught with hindsight bias. A successful investment delivers a strong return over time, but one must consider the risks taken and whether that return came for the right reasons. Eventually, a big lottery jackpot win is a great return, but gambling is a money-losing activity driven by randomness. Thus, my best investment accordingly has been Deutsche Börse (DB1 GR), a German-listed, integrated exchange and financial data and analytics provider. It’s been one of our longest-held investments in the portfolio – more than ten years – and generated a return of 17% p.a.; 5x the initial investment. When I recommended the stock as a youngish analyst in 2013, DB1 was considered a stiff, boring and stagnating business, yet I was convinced that view was outdated. The advantage of holding a monopoly position in many of its market activities, the vertical integration of the business model, the opportunities from post-GFC regulation and the financialization of assets were visible already, but needed time to develop. I also held a much more positive view than most analysts on the volume-driven trading business. The earnings power and long-term growth trajectory seemed utterly underestimated. An EV/EBIT multiple of below 10x wasn’t right for a business with a defensive and long-term GDP+ growth profile, little capex needs, EBIT margins of around 50% and growing – all of which were resulting in high and growing ROICs.”

If you could meet any historical figure (dead or alive) who had a significant impact on the financial world, who would it be, and what investment question would you ask him/her?

“I’ve always admired Stanley Druckenmiller’s decisiveness and boldness, so I would simply ask him: what is your decision-making and execution process? A lot of effort is put into the actual research process, and how to get more – and better – data and analysis. But knowing how to turn research into decisions and actions is equally important.”

Chris Berkouwer, Portfolio Manager

No rainbows for the industrial economy (yet!)

The drumbeat from stronger-than-expected US economic data isn't changing a fairly subdued earnings outlook for industrials, says Chris Berkouwer, co-manager of the Robeco Sustainable Global Stars strategy, after shuttling between two conferences in Miami.

Against a backdrop of both rain and sunshine, the Industrials conferences in Miami, Florida, only occasionally showed rainbow skies. Both Citigroup and Barclays decided it was a good idea to organize 'competing' conferences in the same week and the same city – and literally in the same street. It proved quite convenient for investors, with almost everyone wearing badges of both conferences, rushing from one street corner to the other all day long. Attendance was high, driven by interest in the megatrends that many industrial companies are exposed to, such as reshoring, 'megaprojects', automation, greening of buildings, renewable energy, and so on.

Promising prospects

At both conferences, the number-one favorite sentence of Industrial America Inc. was *"We expect a second-half 2024 recovery"*. The sentence *"De-stocking is slowly coming to an end"* was the second most popular one. It reminds me of when my children tell me they *reeeaaally* will clean up their room tomorrow.

Image: Larry Summers at Citi Industrial Tech and Mobility conference

Cynicism aside, the beauty of industrials is that due its sheer fragmentation as a basket category, there's always something to like or dislike. On balance, one can indeed argue that inventories across the board are bottoming, the freight downcycle is coming to an end and overall demand will stay resilient at a low level. To what extent the US elections can spoil the party, or on the contrary, re-ignite growth from here, remains to be seen, but it certainly was a favorite topic over evening drinks.

Despite balanced fundamentals for industrials as such, the problem resides in valuation levels, which are 'fair' at best. In combination with a subdued earnings trajectory, most companies will struggle to hold on to peak margins. Interestingly, during most of last year we saw the historical correlation between PMI and corporate earnings breaking down. While PMI numbers stayed weak (below 50), earnings somehow still accelerated throughout 2023, which seems unsustainable. Ironically, PMI has started to go up in 2024, while earnings have started to decelerate. All this seems counter-intuitive, but really still is the (extended) bullwhip effect from post-Covid supply-chain disruptions. Meanwhile, industrials stocks moved between fairly valued and expensive, but never got really cheap.

Back to reality

So even though those favorite management sentences mentioned earlier can be viewed cynically, there is also some truth in them as we gradually move into a more normalized environment. However, for now, it seems our exposure to last year's winning themes such as HVAC, grid infrastructure and electrification, provide best visibility and thus remain most popular with investors. All in all, I came back from this trip with the view that it had validated our current positioning, while also having picked up on some new ideas in case we want to close our industrials underweight. Or, as guest speaker Larry Summers put it: "No summer vibes, yet!"!

NEW STRATEGY

Rob Schellekens, Portfolio Manager

New strategy launch: Emerging Markets ex-China

This newest addition to our Emerging Markets (EM) product lineup, launched in December 2023, builds upon the same rigorous investment process and established philosophy as all our EM strategies. Lead portfolio manager Rob Schellekens explains how it offers optionality for clients' EM exposure.

China's dominance and concentration risk

China's growth over the past two decades has been stellar, and it has turned into a powerful economic force globally. This is certainly reflected in the equity market as China is the single largest country weight in EM at 25%. A growing number of clients see China's size as a concentration risk to the overall performance of the EM asset class They prefer to make a separate allocation to China in their portfolios, not overshadowing the potential of other EM countries such as Indonesia, Brazil and Mexico.

Balancing the EM universe

By excluding China from the strategy, we achieve a more balanced representation of the different opportunities in emerging markets. Notably, Latin America, Eastern Europe, and the Middle East now collectively account for nearly 30% of the index. Additionally, other larger emerging markets like India, South Korea, and Taiwan gain greater prominence in our strategy, which is no surprise: as we mentioned in last quarter's outlook, these markets form the new rival block to the West. The sector composition of EM ex-China Index is also different. Notably, the consumer discretionary and communications services sectors have less weight without the large Chinese internet giants. Conversely, IT, and more specifically semiconductors and tech hardware, enjoy a much greater weight.

Decoupling of China from other emerging markets

In addition to the differences in sectors and countries, the performance correlation between China and the rest of the EM region has weakened. Since December 1998 the correlation between MSCI China and MSCI EM ex-China has declined from nearly 0.7 to less than 0.5. While China faces its unique set of issues, other EM markets have demonstrated strength. India, given the size of its economy and population, and its robust economic growth is positioning itself as a counterweight to not only the West but to China itself. Some smaller EM countries have seen rising domestic demand and benefited from outsourcing away from China. Mexico and Indonesia, for example, have enjoyed a rise in foreign investment which has caught the attention of investors.

An attractive investment proposition

The macroeconomic backdrop for EM ex-China is strong with growth holding up well and inflation manageable, giving central banks ample room to cut interest rates while balance sheets are healthy. Secondly, the consensus earnings growth for EM ex China is expected to be higher than the earnings growth of EM, where China is dragging this number down. Lastly, valuation is attractive. And while EM has always traded at a discount to DM, often attributed to risk, many EM countries are now in a better shape than they have been in the past. This valuation discount is also present in EM ex-China.

WHERE WE DIFFER FROM THE MARKET

Kelvin Leung, Portfolio Manager

Unlocking value in Japan's property sector

Despite the end of zero interest rates, Robeco's Asia Pacific Equities strategy is overweight Japan real estate, reflecting a view that is contrary to the market.

The structural end to deflation in Japan and the likely rise in inflation will benefit the sector in our view. Japan real estate stocks are still trading at multi-year lows, despite property prices hovering around all-time highs and we think this is divergence is unlikely to persist. In addition, we expect pressure from activists for the unwinding of cross-shareholding to gather momentum, and ultimately to result in rising net asset value and improving return on equity. These developments outweigh possible concerns about a rise in debt costs – and especially since the Bank of Japan is likely to opt for a lower-for-longer policy regime.

Falling vacancy rates and prospects of tightening supply

Overall, then, the outlook for Japan real estate is positive. Conditions in Japan's office market, for eample, are nothing like those of the US commercial real estate sector, which is beleagured by high vacancy rates. In fact, Japanese office vacancy rates are trending lower, with vacancies in many premium-class buildings well below average, especially in Otemachi, Marunouchi and Nihonbashi in Tokyo.

New supply peaked in 2023 and is expected to fall below the long-term average for the next three to four years. The impact of this on leasing will be delayed for another year or two, as it takes time for rent increases to flow through. Based on our company visits, it seems that major developers are expecting annual rent increases of 2%-3% on top of CPI 2-3% from the next fiscal year. In other words, there is a more aggressive tone around rent hikes than there was a year ago.

Foreign demand

Property sales will be positively affected straight away as new sales will benefit from higher prices. Meanwhile, foreign investors are actively buying new or existing buildings at a low cap rate, and contracting major Japan real estate developers to manage them.

Japan's real estate sector is at decade-low valuations, as reflected in various valuation metrics. Our view is that real estate companies in this market could experience a steady rise in profitability, to reach growth rates of low to mid-teens annually over the next three to five years. This gives us confidence to hold an overweight position in the sector.

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SUSTAINABILITY

Erika van der Merwe, Investment Specialist

Transition finance helps pave the way to net zero

Transition investing is critical in mobilizing the significant investment needed to decarbonize economies. That's why it has developed comprehensive frameworks for evaluating companies' net-zero alignment as well as transition-related initiatives.

Turning brown industries green

Unlike traditional green investing, which focuses solely on 'clean' and environmentally friendly industries like renewable energy, transition finance encompasses a broader spectrum of economic activities, including sectors traditionally considered heavy emitters.

"At first the general thinking was: let's invest in climate – in the sense of investing in green solutions such as wind turbines and solar panels. But if we are to make progress in enabling brown industries to become green, vast amounts of capital investments are needed in high-emitting and hard-to-abate sectors, such as cement, steel, and aviation," says Lucian Peppelenbos, Robeco's Climate and Biodiversity Strategist.

Beyond clean tech

Such a holistic approach also has benefits from a portfolio perspective. "Despite the certainty of its direction, the pace of decarbonization varies from time to time depending on the economic cycle, macro policies and politics.

Focusing on transition – and therefore on investment opportunities beyond clean tech – allows us to build a more diversified and resilient portfolio, says Yanxin Liu, portfolio manager for RobecoSAM Net Zero 2050 Climate Equities. "And, since colossal investments in technology and infrastructure are needed to make decarbonization a global reality, the universe is sizeable."

Proprietary tools to make transition finance happen

Robeco has developed comprehensive frameworks for evaluating transition initiatives, and which can be applied in actively managed transition strategies. These include the Climate Traffic Light, a forward-looking metric that assesses companies' carbon reduction targets and their alignment with the Paris Agreement. Additionally, the Robeco Climate Solution Score identifies companies that contribute to climate solutions in the form of climate change mitigation or adaptation.

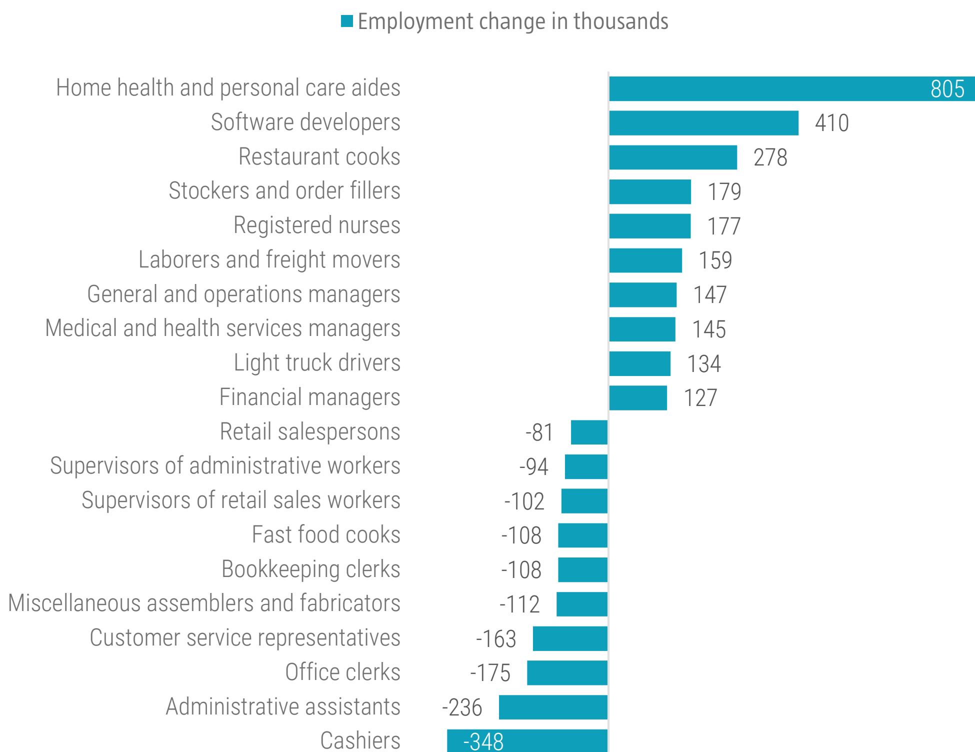
The objective in applying these frameworks is to support the climate transition by investing in two categories of companies. The first group includes the transition leaders – companies that are aligned or are successfully aligning with the below-2°C trajectory, even if their current carbon footprint is still heavy. The second category represents those companies that provide climate solutions that enable others to transition.

Liu cites a Scandinavian oil refiner as an example of a business that is both a transition leader and climate-solution provider. Founded shortly after the Second World War as a state oil company, it is an early mover in transitioning from conventional oil refining to become one of the world's largest renewable diesel and sustainable aviation fuels suppliers, helping reduce the carbon footprint of the long-distance trucking and air transportation industries.

"We see growing client interest in transition strategies in general, and believe there is an exciting road ahead for investors," says Liu.

Jobs in Flux

Long-term changes in society will drive job creation and cessation in the US over the next 10 years. An aging population is driving job creation in home health and personal care aides, registered nurses and medical health managers. At the same time the digitalization trend continues, which is driving job creation in software development and ecommerce-related sectors, with the latter including stockers, order fillers and freight movers. Interestingly, the US Bureau of Labor Statistics thinks US Americans will eat healthier, given their projection that 278,000 additional restaurant chefs will be employed by 2032, and 108,000 fewer fast-food cooks. Some occupations are less fortunate, with cashiers, administrative assistants, office clerks and customer service representatives likely being partially replaced by automation and digitalization.



Source: US Bureau of Labor Statistics, December 2023.

For more Stunning Statistics, sign up for the Robeco Trends & Thematic team's Daily Sketch here

IMPORTANT INFORMATION

Important Information
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