

Press Release

Robeco publishes its outlook for 2018: 'Playing in extra time'

Rotterdam, 9 November 2017 – Has the equity rally finally run out of breath or will the fun for investors last? ['Playing in extra time'](#), that is the theme of Robeco's investment outlook for 2018. Looking at the state of the world economy and how expensive financial markets are, Robeco's Investment Solutions department is convinced that we have reached a late stage in the cycle. The best part of the game is over, but the outcome is still undecided.

The global economy is showing a strong upswing. Nevertheless, professional forecasters remain very reluctant to raise their projections for next year especially outside the US, due to ingrained pessimism about potential growth rates. This gives room for positive growth surprises, which could give the current rally in financial markets another lift. There are a number of clear signals indicating that we have entered the late stages of the cycle, with all the risks that this entails.

China remains a wildcard. Its private sector debt has risen to more than 220% of GDP, which is almost twice the level it was ten years ago. China probably holds a record when it comes to 'kicking the can down the road' and although it may be capable of adding another year or two to its record, it is clearly approaching an inflection point. As expected, Xi Jinping has succeeded in cementing his power base and no obvious successor has been put forward. Chinese economic growth clearly needs to become more balanced. It remains to be seen whether targets be lowered next March.

The quality of the global credit market has steadily weakened. The overall creditworthiness is declining and covenant-lite financing is on the rise, while the number of so-called zombie companies – firms whose survival depends on receiving even more credit – has steadily risen. We have not yet reached critical levels, but the outlook has clearly weakened, which means that the risk-reward trade-off has clearly shifted towards risk.

The steady decline in unemployment rates around the world is another factor that confirms that we are in the late stages of the cycle. Low unemployment is a welcome development, but tight labor markets have not historically been conducive to economic stability. Inevitably wages start to rise, the economy starts to overheat, and central banks react. So far, hardly any monetary tightening is priced in for next year, which means that bond markets look vulnerable.

[Léon Cornelissen](#), Chief Economist at Robeco: *"2017 was an eventful year from a geopolitical point of view with the Dutch, German and French elections, to mention just a few. There are fewer elections scheduled for 2018, but ongoing Brexit negotiations are on the agenda. This saga will continue to be a substantial drag on the economy and this combined with high debt levels in China, Italian elections and monetary tightening, makes me convinced that we can look forward to another challenging year ahead."*

[Lukas Daalder](#), Chief Investment Officer of Robeco's Investment Solutions department: *"Extra time can be fun to watch. As a general rule though, the longer the party lasts, the bigger the crash once the normalization process sets in. If we have learned anything over the years, it is that financial markets do not follow the 'preferred' scenario. Growth momentum is picking up, earnings momentum is strengthening, but a rise in inflation is nowhere in sight. Central banks are not acting like party poopers just yet. Sure, debt is too high and credit is too loose, but as long as sentiment stays positive, financial markets can easily ignore such concerns. Do remember to keep an eye on the clock though."*

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The full report is available upon request, or can be downloaded here: <https://www.robeco.com/outlook2018>.

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About Robeco

Robeco Institutional Asset Management B.V. (Robeco) is a pure play international asset manager founded in 1929. It currently has 16 offices worldwide and is headquartered in Rotterdam, the Netherlands. Through its unique integration of fundamental, sustainable and quantitative research, Robeco is able to offer both institutional and private investors an extensive selection of active investment strategies, covering a broad range of asset classes. As at 30 September 2017, Robeco had EUR 152 billion in assets under management, 70% of which were institutional. Robeco is a subsidiary of Robeco Groep N.V. (RGNV) which had assets under management of EUR 283 billion as at 30 September 2017. More information is available at www.robeco.com.