



Asset Management

LONG-TERM OUTLOOK

Macroeconomic Scenarios
and Expected Returns
2022-2025

*Beyond
borders*

For Institutional and Professional Investor use only.



Table of Contents

Foreword	3
Macro economy	5
General	6
United States	7
Eurozone	8
United Kingdom	12
China & Emerging Markets	13
Alternative scenarios	15
Markets	18
Sovereign bonds	19
Credits	22
Emerging markets debt	24
Private credits	25
Equities	27
Real Estate	30
Real Estate: Sector trends	31
Private Equity	32
Commodities	34
Overview	35
Abbreviations	37
Disclaimer	38



Foreword

Foreword

The global economy continues to recover strongly from the worst of the Covid-19-driven lockdowns.

Central banks are now either discussing the potential to reduce the level of support they provide to economies. While governments are starting to wind down their employment support programmes.

We are not out of the woods yet, however. The spread of the Delta variant reminds us that the coronavirus remains a risk to economies and to wider society despite the successful, ongoing roll-out of vaccines. The health of individual economies also highlights that the process of recovery is by no means occurring at an equal rate.

In this still-volatile environment, it is worth reiterating the basic mantra of any investor, which is to invest for the long term in an effort to smooth out periods of volatility and work to capitalise on the opportunities that inevitably present themselves.

This fundamental fact of our business is as true today as it ever has been. With that in mind, I hope our Long Term Outlook proves to be a useful guide in helping to make sense of current investment markets.

In this, Aegon Asset Management's global Long Term Outlook, we draw upon the expertise of our world-wide investment teams and consider the emerging trends, opportunities and challenges facing the markets and how we expect these to pan-out over the coming years.

We expect economies should continue to recover despite concerns over new variants of Covid-19. Due to ample central bank support, we expect interest rates to remain at or slightly above current levels, which in general should mean low returns from sovereign bonds.

We expect inflationary concerns to be largely transitory, once the pandemic disruptions abate. Corporate bonds remain supported and lower-rated credit should outperform as a recovery in the economy and low interest rates will likely result in a benign credit environment. Several alternative fixed income asset classes currently offer a spread pick-up over sovereign bonds.

Despite elevated valuations in equity markets, we remain relatively constructive on this asset class. Equities should benefit in an environment where interest rates remain low and nominal growth remains supportive.

Real estate markets have come to terms with changing trends in working-from-home and online shopping. Going forward, this is typically an asset class which stands to benefit from low funding costs.

I hope you find this year's Long Term Outlook useful and informative. My Aegon Asset Management colleagues and I are looking forward to helping you navigate the new investment landscape.



Bas NieuweWeme, CEO

Macro economy



World macro economy

A key factor in the past year has been the unprecedented fiscal & monetary support.

The initial economic impact of the Covid-19 pandemic and the subsequent rebound have been different for many countries.

As the pandemic started in China, that country initially experienced a fall in output. As China was subsequently able to contain further outbreaks, it resulted in a faster recovery and output exceeding pre-pandemic levels.

Europe and the US have in contrast struggled more with the pandemic in 2020. Restrictions were needed during the initial wave and during the winter 2020/2021 period. The initial fall in output in 2020 was by far the most damaging. In subsequent waves, corporates and households, adjusted their behaviour, which resulted in a smaller drag on growth.

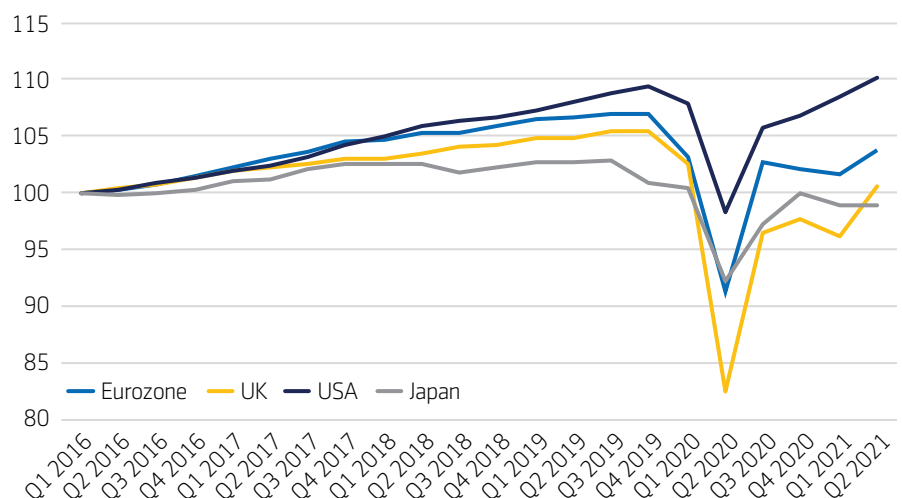
A key factor in the past year has been the unprecedented fiscal and monetary support. Central banks have lowered rates and implemented very large asset purchase programmes to soften the economic impact and fiscal authorities have offered support programmes. In Europe these mainly took the form of

job retentions schemes and via a new recovery fund, the NextGenEU fund. In the US, fiscal help came via direct support to businesses and households.

Overall, the economic performance in the US, has been stronger as lockdowns have been less stringent and fiscal support has been higher compared to Europe. Also, a speedier start of the vaccination campaign resulted in an earlier start of the recovery. The UK meanwhile had one of the deepest recessions in the developed world in 2020, due to stringent lockdowns. Brexit may also have had a negative effect on growth. The early start of the vaccination campaign however helped to recover part of the initial fall. Japan has been lagging with its vaccination campaign, this has resulted in a recovery which is only likely to start toward the end of 2021.

From now on, it's important how these economies evolve, which we will describe in the next sections of our outlook.

Figure 1: GDP index for several countries (As of Q2 2021)

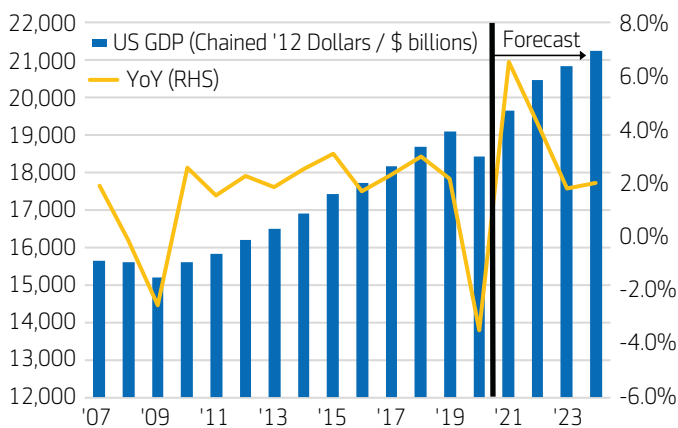


Source: Refinitiv, Aegon Asset Management

US: The Great Normalization

The long-term outlook for the US economy calls for peak cycle growth occurring in the summer of 2021 and then a continued moderation towards more trend-like levels over time. This positive growth runway is the flip side of the pandemic-driven depths the economy plunged to in 2020 when the year-over-year growth rate declined -9%. Labor is being mobilized at a massive rate, greater than the traditional business cycle which usually shows a more gradual pace of improvement. Given the overall pace of this expansion phase, we believe the cycle will be much shorter than last cycle which lasted in excess of a decade.

Figure 1: US GDP (Bln USD and YoY change) (As of Aug-21)

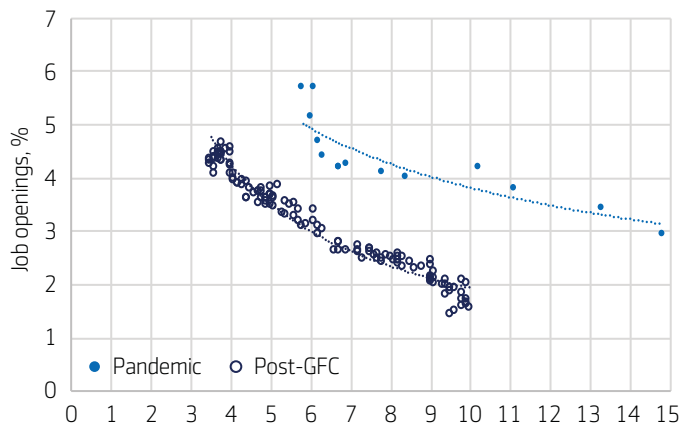


Source: Aegon Asset Management, BEA, HAVER 2021 - 2025 projections provided by Aegon Asset Management. Hypothetical example for illustrative purposes only.

A key element influencing the rate of the normalization is the pace of transition in the main economic driver from public to private hands. During the pandemic rollercoaster, a larger portion of the aggregate consumer spending has been aided by fiscal booster shots aimed at replacing lost wages. Now, as the pandemic stimulus wears off, the strength (or lack thereof) of the recovery will be determined by how firmly private enterprise takes the reigns.

A key area to watch for normalization is the labor market. The Beveridge Curve is an economic relationship between job openings and the unemployment rate. There is always some level of frictional unemployment – the level of unemployment due to a mismatch in skills or geographical separation. However, during the pandemic the Beveridge Curve has shifted up and to the right, signaling that there is another ‘frictional mismatch’ stemming from the virus (e.g., health concerns, etc.). In the coming years, the degree to which the Beveridge Curve slides back to historical levels will illustrate the magnitude of normalization.

Figure 2: Beveridge curve for the US (As of Aug-21)



Source: Aegon Asset Management, Federal Reserve Economic Data, NBER

To be (transitory) or not to be. The loose adaptation of Shakespeare’s masterpiece is meant to capture the essence of the raging inflation debate. At Aegon AM we fall on the transitory side, as we do not believe the structural factors are in place to drive sharp sustained price increases for multiple years. Rather, many of the current price pressures are associated with items that are directly tied to supply-chain bottlenecks due to a massive re-opening of the economy. Furthermore, we believe long term inflation expectations will continue to be anchored, a key determinate of Federal Reserve policy.

Fiscal policy will likely remain a net tailwind over this forecast window, but not nearly to the extent that was utilized to acutely deal with the pandemic (roughly \$5 trillion in 12-month period). Even though there are massive infrastructure (\$1 trillion) and social spending (\$2 to \$3 trillion) plans being discussed, these amounts are over a 10-year budgetary window. Thus, the annual amount is a small fraction of the amount of emergency stimulus paid out during the pandemic.

Asset allocation: A key component of our macro backdrop is sustained above-trend growth. In this environment, we prefer assets that are levered to nominal growth – equities and lower quality credit. Later in the cycle we will look to increase our defensive profile commensurate with the changing risk-reward profile.



Eurozone: A new chapter

The Eurozone economy has suffered a large hit due to the pandemic induced lockdowns across the continent. The initial fall in output during the first half of 2020, had by far the biggest impact, but the lockdowns during the winter of 2020 and into 2021 also resulted in another fall in output.

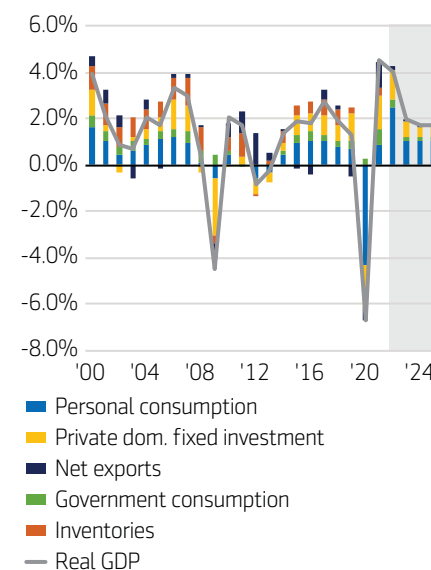
The Eurozone underperformed the US economy during the pandemic which is likely due to two major differences. Firstly, the size of the fiscal stimulus was significantly larger in the US and secondly the US lockdowns were on average less stringent. Whilst the Eurozone initially lagged the US in deploying the vaccine, the region quickly caught up and has surpassed US levels, allowing economic activity to return.

Outlook: Uneven, but strong recovery

We expect the Eurozone to grow strongly during the remaining part of 2021 and into 2022. However, this growth is mainly a catch-up from the large fall during the pandemic. So high growth numbers shouldn't be extrapolated into the future or be seen as a net positive. Economies which experienced the biggest fall in 2020 are likely to show the biggest rebound, simply as they return to their pre-pandemic levels. In Europe the more tourist dependent economies, like Spain and Italy, experienced the biggest fall and are set for the strongest rebound in percentage terms. In our view, it's therefore more intuitive to look at the level of GDP, instead of its change. On this measure, some Northern European economies are set to return to pre-pandemic levels in the second half of 2021, while Southern countries are likely to reach that level a year later. After the rebound from the pandemic induced hit, we expect growth to stay slightly above its longer-term trend.

The pandemic will change economic policy for many years to come, and below we discuss the main variables.

Figure 1: Eurozone GDP Composition (As of Aug-21)



Source: Aegon Asset Management, Bloomberg, Refinitiv 2021 - 2025 projections provided by Aegon Asset Management. **Hypothetical example for illustrative purposes only.**

Fiscal stimulus: A new economic experiment

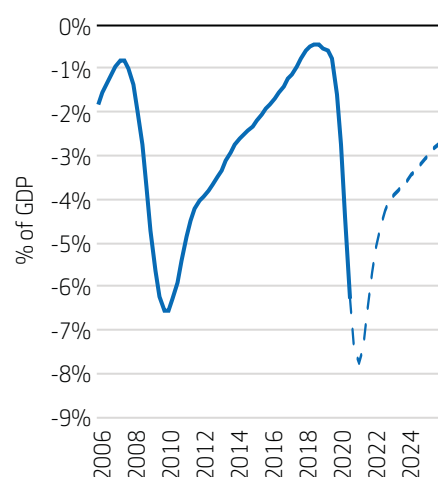
After the Eurozone debt crisis, there has been a focus on fiscal prudence, especially driven by Northern-European states. At that time these regions wanted to prevent another debt crisis, by making sure government debts would be reduced over time.

This attitude towards fiscal stimulus has now shifted from fiscal prudence towards using fiscal resources to support and stimulate growth. Initially, all countries were forced to support their economies by implementing furlough schemes and supporting businesses during restrictions. Apart from this direct fiscal support, there has also been a drive to use fiscal resources for investments. The NextGenEU fund, (see paragraph on page 11) is the main result of this. The idea is to invest in

productive investments, which would lead to a structurally higher GDP in the future and as a result a lower debt-to-GDP ratio.

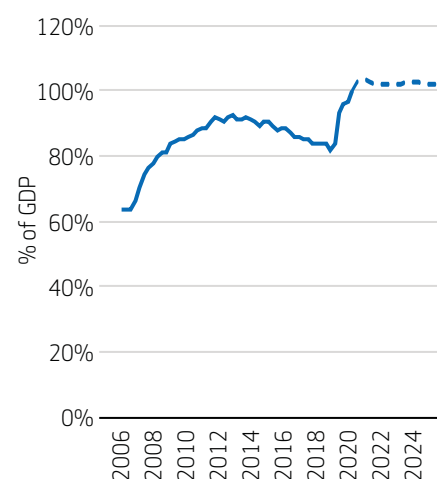
Governments have run very large deficit (see figure 2), which has again led to a surge in government debt ratio (see figure 3). These deficits are likely to decrease as government support programmes are terminated. However, assuming labour markets stay resilient, this will not lead to a contractionary effect. For now, many countries remain accommodative to prevent any tightening during the initial recovery.

Figure 2: Eurozone budget balance as percentage of GDP (As of Q1 2021)



Source: Aegon Asset Management, Bloomberg, Refinitiv 2021 - 2025 projections provided by Aegon Asset Management. Hypothetical example for illustrative purposes only.

Figure 3: Eurozone government debt as percentage of GDP (As of Q1 2021)



Source: Aegon Asset Management, Bloomberg, Refinitiv 2021 - 2025 projections provided by Aegon Asset Management. Hypothetical example for illustrative purposes only.

Consumptions: Determined by employment recovery and excess savings

Consumption is the largest part of GDP in Europe. The recovery in consumption in the next few years will be determined by two main developments. Firstly, the labor market and secondly whether consumers will spend their accumulated savings.

The labor market has so far been more resilient than initially feared, however it remains very difficult to get a firm view on job developments. In Europe, unlike in the US, the main government support programmes have been furlough programmes. These have been successful in preventing a rise in unemployment, but at the same time it is uncertain whether companies will make employees redundant once these schemes end. Our expectation is that unemployment is likely to rise slightly, but the labor market overall will remain strong. Especially as there are many signs that companies in Europe have difficulties finding qualified employees. Countries that are dependent on tourism are likely to see a rise in

unemployment, as we do not expect this sector to return to normal until at least 2022.

During the pandemic, consumers on average have accumulated savings, as their spending patterns were limited by lockdowns and other restrictions. While incomes were supported by furlough schemes. One factor which determines the pace of the recovery, is the speed with which this balance of savings will be spent. A large part of these saving have been accumulated by wealthier household, who are likely to spend only part of their savings. Uncertainty about the future course of the pandemic and about employment prospects will likely imply that many households will maintain some savings as a buffer. However, as the European economies reopen and restrictions are being lifted there will be a pent-up demand for travel, leisure and hospitality resulting in an additional spending surge.

While a longer-term driver of consumption will likely be productivity growth and hence the ability to increase wages structurally above inflation levels. On that measure the pandemic effect could be positive due to the accelerated adoption of technology, however at the same time education has suffered. The balance between the two is far from certain.

Politics; France and Italy in the spotlights

Political developments are relevant in any economy, as they partly determine the outlook for economic policy. For instance, taxation, fiscal policy and trade policy can change materially. In the Eurozone, it is possibly even more important as it is a collection of sovereign countries inside one monetary union. As we have seen in the past years, this can lead to a crisis and economic divergence in some cases.

In the next couple of years two elections are likely to potentially have an impact on the Eurozone. First, there is the presidential election in France in 2022. Currently, President Macron is not polling well, and there is a chance the Eurosceptic Le Pen may win as the political views in France have shifted more to the right. We therefore expect a decent centre-right candidate would be the most likely winner of these elections. But political elections are not always easy to predict, as potential corruption scandals or other external events can lead to sudden changes in political support. Secondly, political developments in Italy are important because of the size of its economy and prevalence of Eurosceptic parties. Parliamentary elections are not due until 2023, but historically Italian politics have been unstable. The current national unity government led by Draghi currently has sufficient support, but this could change once the pandemic is over, as the more Eurosceptic parties have changed their stance from a Euro exit towards changing Europe from the inside. Therefore, we do not expect another Eurocrisis even if they are elected. However, it will make governing the EU even more difficult and likely lead to less progress on reforms and integration with lower growth.

ECB: Stuck at the lower bound

The ECB has done its part in supporting the Eurozone economy, including implementing a very large QE program, the Pandemic Emergency Purchase Programme (PEPP), which is now 1.85 trillion Euro in size. It has also provided favorable long-term financing to banks and has kept the deposit rate at -0.5%.

Investors are currently vigorously debating how and when these pandemic programmes would be unwound. In our view, the more relevant question for the economy and markets, is whether the ECB can allow interest

rates to rise. We are quite confident this is very unlikely. The ECB controls short rates directly, while it partly controls longer term rates through its QE program and its forward guidance.

The main reason we expect rates to stay low is that debt levels were already challenging before the pandemic ([see also article in last year's outlook](#)). Now many countries would not be able to stabilize debt levels if interest rates are much higher. One could argue this is not the responsibility of a central bank, however the ECB is effectively a hostage. A rise in rates, would lead to concerns about debt sustainability, higher sovereign spreads and an economic dip in the most indebted countries. Consequently, the ECB would need to react by lowering rates and/or QE. Clearly, the ECB wants to prevent this dynamic. So, in essence the direction of monetary policy has been dictated by its weakest link. Monetary policy based on Northern European economic performance would have been less accommodative. This dynamic could change if Europe implements a fiscal union. Debt metrics are much better on aggregate EU level, and in fiscal union the risk of defaults or Eurozone exits are no longer present. However, a fiscal union is likely to be very far away in the future. The recovery fund is a step in that direction but is too small in itself.

NextGenEU; another leap towards federalism?

The coronavirus crisis has resulted in a massive hit to the European economy with countries deriving a higher share of their GDP from tourism impacted hardest. In the first wave in spring 2020, Italy and later Spain suffered the biggest direct impact. This also raised the question whether there was sufficient solidarity in the EU to support states facing adversity and EU leaders

feared the crisis would lead to further divergence in the economic fortunes of the union.

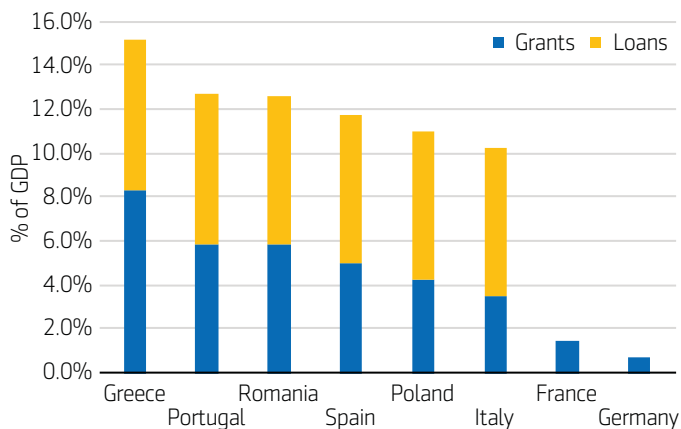
The EU tends to be forced to integrate further during a crisis, as the cost of not doing so is seen to be higher. Previously, this happened during the credit crisis, when several steps towards a banking union were taken for example, harmonizing capital requirements. Shortly after the credit crisis the European Banking Authority (EBA), the European Securities and Markets Authority (ESMA) and the European Insurance and Occupational Pensions Authority (EIOPA) were setup. The role of these organizations were to develop a single rule book for banks, financial markets and insurance companies respectively, and they were an important step towards further European integration. A similar development happened a couple of years later during the Eurozone debt crisis. At the time several funds were set up to support sovereign bond markets, hit by the crisis. Initially, the ECB had to ensure financial market stability leading to the temporary European Financial Stability Facility (EFSF) and its predecessor, the permanent European Stability Mechanism (ESM) being established. These were aimed at supporting sovereign bond markets in exchange for reforms.

The current response from the EU is the "Next Generation EU" fund or NextGenEU, which is approximately 750 billion or 5% of Eurozone GDP. Initially this was called the recovery fund and is yet another step towards EU integration. It is in theory temporary, with disbursement taking place between 2021 and 2026 and debt repayments will not take place until 2058. However, its precedent-breaking features like its size, long duration and its risk sharing make it well suited to

transform into a permanent facility.

Officially, the NextGenEU fund is aiming to increase national investment in the green and digital transition of the EU. However, allocation is based on pre-pandemic economic variables, like the inverse of GDP per capita and partly on the GDP hit during the pandemic. It therefore tries to address two fundamental issues. Firstly, trying to accelerate convergence of economies which have been lagging before the pandemic and secondly assisting the recovery from the pandemic hit. An estimate of the available allocation from the NextGenEU for several countries is shown in figure 4.

Figure 4: NextGenEU allocation for a selected number of countries (as of March-2021)



Source: European Commission and Aegon Asset Management

As a share of GDP, countries in Eastern Europe and Southern Europe are the main beneficiaries while for France and Germany the grants will be much smaller, with disbursements conditional on implementing reforms. The investments need to target the green transition for at least 37% and the digital transformation for at least 20%.

A key question is what the economic impact of this additional spending will be. A large part of the fund will be used for public investments, which according to most estimates carries a multiplier higher than one (i.e., For every Euro spent,

GDP increases by more than one Euro). However, the devil will be in the details as not all public investments will be productive. In addition, if countries decide to pursue vanity projects, or corruption erodes the efficiency of spending, then clearly the economic impact will be less.

Public investments are currently still around 1% of GDP lower than compared to their level before the credit crisis. Especially, in countries like Italy, public investment has been lowered due to the need to stabilize budgets. So, in theory, there might be an opportunity in increasing productive spending, although a likely constraint to this will be the absorption capacity. Public investments would, for instance, need to double in most Southern-European countries. It will therefore be a challenge to find, approve, start and effectively manage the number of projects required to invest the NextGenEU resources.

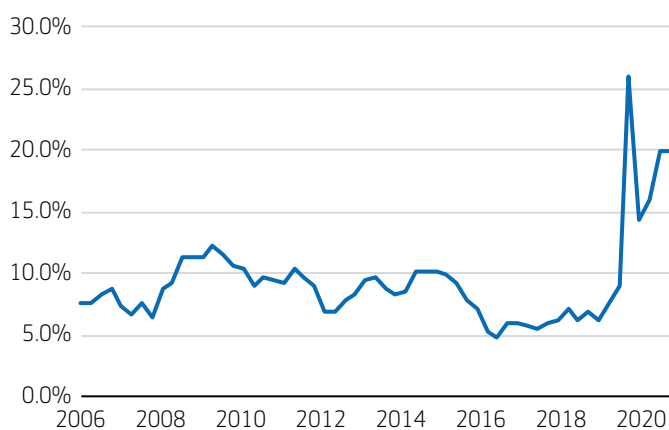
In the end, the NextGenEU is a debt financed investment scheme. These are only successful if they result in higher economic growth, such that this borrowing can be paid back. Estimates about the efficacy vary greatly. For our outlook, we are in line with an ECB analysis which assumes Eurozone GDP would be 1.5% higher, compared to a situation without the NextGenEU fund.

It's a certainty there will be corruption and that some projects will fail. However, on balance the fund does address one of the impediments to growth, the lack of public investment and economic reforms. Although far from perfect, the direction of travel seems to be right. Fingers crossed...

UK: Economic recovery

The coming quarters remain beset by uncertainty as the UK economy emerges from the pandemic and the measures taken to contain it. The UK has suffered badly during the pandemic, for example its 1Q21 GDP level was still 8.7% below the pre-crisis level. This can be explained by the fact the UK had one of the longest lockdowns in the world and is especially dependent of services. However, the future is not all doom and gloom, as the vaccination campaign is among the most advanced in the world, and households are sitting on large amounts of savings accumulated over the crisis (see figure 1). Businesses are in good shape, with investment spending expectations at the highest level since before the EU vote.

Figure 1: UK Savings Rate (As of Q1 2021)



Source: Aegon Asset Management, Bloomberg

Many of the unforeseen consequences of monetary and fiscal policy decisions should come to light in the near term. As such we expect the UK economy to continue strengthening at an above trend growth rate for the next 18-24 months, matched by similar trends in other economies worldwide, before reverting to trend. It will however be some time before estimates of how much 'scarring' or lost capacity has been sustained over the pandemic period.

Inflation is also rising as supply bottlenecks, the rise in oil and other commodity prices affect the inflation data. On a more medium-term basis, inflation in the UK is expected to revert to lower levels. The Bank of England is likely to remain cautious regarding monetary policy throughout 2021 until the full effectiveness of the vaccination programme is seen and to look through any short-term inflation peaks. We expect caution to prevail despite a backdrop of above trend growth and rising prices, but we think it is unlikely the Monetary Policy Committee will add further quantitative easing once the current programme ends.

Fiscal policy is still expansionary for the UK economy but it is expected to tighten in the years to come. The Office of Budget Responsibility (OBR) expects annual budget deficits of 16.9% in 2020/21, 10.3% in 2021/22, 4.5% in 2022/23 and towards 2.8% by fiscal year 2025/2026. The total debt to GDP ratio is expected to peak at around 110% in fiscal year 2023/24 based on current policies. There is no UK general election until 2024 so at least for the next few years it is reasonable to expect no major change in policy.

The impact of Brexit on the economy to date has been dwarfed by the pandemic thus making it difficult to isolate its influence. One area where there was clear evidence of a Brexit shock is exports. Exports to the EU were initially depressed but have since rebounded and imports are more or less unchanged. Importantly, Brexit has exacerbated supply chain problems and delays which are haunting most economies – and these are unlikely to disappear any time soon. In addition to supply bottlenecks in goods, Brexit has also led to a strong wave of departures of EU citizens, there are anecdotal reports of shortages of workers in some sectors (food & beverage, transportation and agriculture) that had a sizeable proportion of EU workers. The supply shortage of labor caused by Brexit will potentially lead to higher wages and higher prices. Although to date any price effect has been offset by the strength of sterling (reducing price pressures) despite the large relative price movements in commodities (increasing price pressures). Whilst the shortage of labor continues, it may limit the speed of economic recovery, however at this stage it is from a buoyant level.

China and Emerging Markets

As the Covid-19 pandemic enters a second year and vaccine deployments are being scaled up to inoculate populations, concerns are rising about how well the global recovery and emerging markets (EM) will fare in the long-term. Our view is a multi-speed economic rebound in which some regions (Greater China, Middle East, and Emerging Europe) rebound faster than Latin America and Africa. The resurgence of cases related to the Delta variant (and future Covid-19 strains) will challenge emerging markets to manage fiscal and monetary policies and achieve a sustainable trend recovery.

For this article, we differentiate our forecasts and narrative of China and an emerging market universe that includes China. China is the second largest economy of the world and has significant impact and linkages with the other emerging economies. The emerging market universe is diverse due to development stage, market access, income levels, and global linkages and these defy a uniform narrative. While emerging economies are dissimilar, they have generally made remarkable progress in establishing rule-based fiscal and forward-looking inflation-targeting frameworks.

China and emerging markets took bold measures during the Covid-19 pandemic. On the fiscal side, economic measures included government spending, liquidity support, asset purchases, and assistance from multilateral financial institutions (IMF, World Bank). Emerging market central banks eased monetary policy aggressively following similar actions of advanced economies. Higher fiscal deficits have also added to already elevated government debt in many emerging markets. Without these policies, emerging markets would have faced far worse economic contraction

in GDP and materially risked the post-pandemic recovery. China was able to contain the Covid-19 virus and inoculate its population faster than the rest of emerging economies.

The long-term economic outlook for China and emerging markets is based on how quickly the negative effects of the Covid-19 pandemic on human capital, employment, financial systems, politics, growth, and inflation can be managed. Unlike China with debt in domestic currency, other emerging economies have sizeable external debt and/or foreign investors that own a sizeable share of domestic debt. Emerging markets must keep debt service costs manageable and, in some countries, seek debt forgiveness under the G20 Debt Service Suspension Initiative Common Framework. The recent hawkish tilt by the Federal Reserve (Fed) and global inflation spike is likely to be temporary as cost-side inflationary pressures ease in the next few years. We have taken a close look at the economic and financial trends, putting aside the short-term Covid-19 headwinds, and we see a better China and Developed Market (Europe and US) outlook, which would be very supportive for Emerging Markets (ex. China), given the strong trade and capital linkages. With the global recovery getting stronger, the external positions for commodity EM producers will keep getting stronger. The cyclical rebound for EM should continue, boosted by pent-up demand and investment. This improvement in global economic activity is highly dependent on continued vaccination efforts. The demand side globally should remain strong, bolstered by reopening economies, ongoing vaccination, and increased confidence. Supply-side constraints bring uncertainty in the near term but should dissipate over time, and our outlook for a resilient, broadening recovery in the long-



term remains unchanged. The recovery is still likely to be asynchronous not only between EM and DM, but also intra-EM.

The US monetary policy appears to be in a transition with expectation of rate hikes in 2023 and the Fed is expected to start tapering of its asset purchases ahead of monetary tightening. China has already transitioned to a neutral monetary policy with the recently announced cut of the reserve requirement ratio (RRR). This RRR reduction demonstrates the People's Bank of China (PBoC) is determined to anchor liquidity expectations and make sure market participants do not fear liquidity tightening. Growth rebalancing continues with retail sales and manufacturing investment continuing to catch up, while property investment growth has lost some momentum. Meanwhile, activity data in China shows growth rebalancing continues, with key indicators for private domestic demand seeing stronger growth momentum. This is in line with growth engines gradually being expected to shift from property investment to manufacturing investment and household consumption in the coming years. The momentum in exports from the continued recovery of the global economy should remain robust. Global trade data points to China's firm position in global supply chains, notwithstanding the tariffs and trade tensions with the United States. The National People's Congress (NPC) was held in Beijing from 5 to 11 March 2021 and saw Beijing reintroduce the annual GDP growth target (above 6%) for this year and stated it will continue to set annual GDP growth target in the coming years. Our long-term growth forecast for China is based on expectation that Beijing's growth guidance will keep future GDP targets at around the 6% level. The CPI inflation outlook for China remains modest, necessitating prudent and flexible PBoC monetary policy, while keeping the supply of money and aggregate financing in step with economic growth in nominal terms. Most central banks in Asia are likely to follow the PBoC's example and not turn hawkish in the near term. In contrast, other EM central banks are already responding or will shortly begin to respond to closing output gaps and

inflation pressures. Political developments will likely remain fluid in many EM countries, which can be an additional source of differentiation. With regards to emerging markets, we expect a slowing pace of global liquidity growth while factoring the impact of Fed tapering for EMs, Covid-19 vaccinations, higher interest rates, and stronger external positions. A potential concern for the long-term outlook for EMs is the trend of growth appearing to be decelerating in the years leading to the Covid-19 pandemic, both on an absolute and relative to DMs. The underlying trend in EM GDP growth has slowed from a peak of around 7% just before the Global Financial Crisis (GFC) to around 4.5% currently. This slowdown has largely been led by the decline in China's potential growth. With expectation that China will target GDP growth rate to around 6%, normalization of global growth activity suggests a return to around 5% for emerging markets. We factor in a decline in protectionism and significant reversal of de-globalization trend as global trade agreements are implemented and unilateral tariffs (aka protectionism) decline for emerging markets.



Alternative scenarios

Besides our base scenario, we consider several alternative economic scenarios to evaluate how the economy and financial markets might perform using different assumptions.

Alternative scenario: Roaring Twenties

One of the alternative scenarios we consider is a roaring 20s scenario. In this scenario the economic recovery is stronger than in our base scenario. This scenario has similarities with the situation about 100 years ago when the 1920s depicted a decade of strong economic growth.

The current economic conditions have similarities with the conditions at the start of those roaring 20s. Firstly, there is potential for a catch-up in deferred spending. Many consumers have not been able to consume normally in the previous quarters. Many shops and restaurants were closed, and holiday travel was limited. This has resulted in less consumption – mainly on services – and higher savings.

Secondly, the pandemic has accelerated the adoption of technology. This might turn out to be a blessing, as it could lead to higher productivity growth. Normally, one of the impediments to growth is the lack of mobility of labour, which could now be partially solved by the working from home trend. Thirdly, in this scenario investment could increase significantly. Many companies have reduced corporate investments in the previous year to retain capital and liquidity. Now that the economic situation improves, these companies can restart their investment programs to expand capacity. The corona crisis has revealed that international supply chains are vulnerable in times of crises. Companies that want to become more resilient to future shocks will invest more in domestic capacity, which

can result in additional domestic investments in the coming years.

Another interesting similarity with the roaring 20s is infrastructure spending. A century ago, mass-produced vehicles became commonplace in the western world. The higher traffic volumes required large scale infrastructure investments such as roads and bridges. At the same time, the adaptation of phones resulted in telephone lines being strung across continents. These developments resulted in large scale government investment that took the state of the infrastructure to the next level. Now, it seems we're at the brink of a new era of infrastructure spending. The Biden administration has sizable infrastructure plans for the US while the European Recovery plan has a strong focus on infrastructure too. These large-scale programs focus on many aspects, including the upgrade of existing infrastructure but also investments in next generation technologies, such as renewable energy. These programs can shape the way we live our lives for the coming decades and unlock economic growth in the years to come.

As mentioned, we argue that the roaring 20s scenario will result in a higher economic growth in comparison to our base scenario, both via the consumption and investments channel. The higher economic activity would coincide with higher inflation and a stronger labour market recovery than in our base scenario. We would expect that risky assets would be the preferred asset classes for this scenario. At the same time, we would expect perceived safe-haven assets – especially government bonds – to be under pressure.



Alternative scenario: High(er) inflation

Another alternative scenario we consider is an inflation scenario. Global inflation has been in a downward trend over the past decades. This has often been explained by the globalization of supply chains – with more products imported from cheap labor countries – but also the lack of power of labor unions – resulting in lower wage pressure, technological advancements and demographics, among others.

In the past month's inflation has been very topical. This time not because it is low, but because of a sharp rise. In our base case we recognize this high inflation, but we expect it to move lower in the coming years. However, it is certainly possible that inflation will remain elevated for an extended period. For this alternative scenario we consider the factors that can push it higher for an extended period.

- The reopening of the economy is expected to result in higher inflation. In general demand has been more resilient than initially feared. Companies have therefore been too careful with their production plans. This is currently leading to supply chain disruptions as demand outstrips available supply. Also, corona related restrictions have resulted in further disruptions. These disruptions can result in temporary shortages and higher prices.
- Central banks have followed loose monetary policies. It takes time for the liquidity to find a way into the economy. The magnitude of the monetary support has been large and when the liquidity finds a way into the real economy, this could result in (asset price) inflation.
- Wage inflation due to tightness and friction on the labor market. Workers

could demand higher wages because of scarcity of qualified workers in certain sectors. At the same time, higher spot inflation could result in higher inflation expectations.

- Reversal of outsourcing to low wage countries as the corona pandemic revealed the weaknesses of complex and international supply chains.
- Higher costs due to large-scale investment plans to improve infrastructure and boost renewable energy

Inflation remains one of the economic variables, which is probably most difficult to forecast. This is partly because the level of inflation can be largely dictated by expectations about future inflation. If people would expect inflation to increase, they would demand higher wages thus resulting in a self-fulfilling prophecy. In the current circumstances, where there is a sudden jump in inflation, this can possibly get more entrenched if higher inflation level is viewed as being more permanent.

We do expect growth will be roughly similar in a higher inflation scenario. In this scenario we would expect assets with a positive inflation link – such as commodities – to do well. Although central banks have communicated they are comfortable to let inflation overrun for some time, we believe they will come into action when a situation outlined in the inflation scenario would materialize. We would expect the monetary policy would be normalized more quickly by lowering the asset buying programs and raising policy rates. Interest rates on government bonds would be expected to move up, resulting in negative returns on government bonds and equities would initially generate a negative performance, but would perform well in the medium term.

Alternative scenario: Japanification

The last alternative scenarios we sketch is low inflation. This scenario is based on an outlook of low economic growth, low inflation and low interest rates. This resembles the situation in Japan in the 1990s, when the country entered its “lost decade”.

In order for the low inflation scenario to materialize growth has to disappoint. In the current situation this could be due to new vaccine resistant variant emerging or due to more scarring of the economy than currently expected.

A fall in GDP or a slow recovery is likely to have a disinflationary impact, as unemployment will be higher and capacity usage low. Central banks are currently already at or near the lower bound in interest rates and have sizeable QE programs. They are therefore limited in their policy options to get inflation back to their targets. It could therefore happen that, just like in Japan, inflation is no longer responsive to central bank policy.

In the western world – mainly the US and Europe – the structural inflation has been relatively low and falling in the past decades. There are several structural factors that are often related to the low inflation, such as the globalization of supply chains – with more products imported from cheap labor countries – but also the lack of power of labor unions – resulting in lower wage pressure, technological advancements and demographics, among others.

Two factors where the western world and Japan have similarities are the high public debt ratio and the demographics. Since the 1990s Japan has been struggling with a high public debt level. The same is true for countries in the eurozone and the US. Public debt in the

western world was high already before the corona crisis, and the pandemic resulted in major spending and even higher debt levels in most nations. It is likely these debt levels will continue to grow in the coming period, as governments have announced spending and investment plans for the next few years.

In a Japan-like scenario, we expect economic growth, inflation and interest rates to remain low. We expect that central banks keep policy rates low in an attempt to support inflation and economic growth.

In this scenario, real interest rates – despite the low inflation – remain low or even negative. Assets which benefit from low interest rates, like long duration government bonds, should perform well. Assets which are linked to nominal growth, like equities will face headwinds.

	Roaring 20s	Inflation	Japanification
Economic growth	Period of high growth	Moderate economic growth	Low economic growth
Inflation	Period of high inflation	Period of high inflation	Period of low/negative inflation
Preferred asset classes	Equities	Commodities	Long duration fixed income



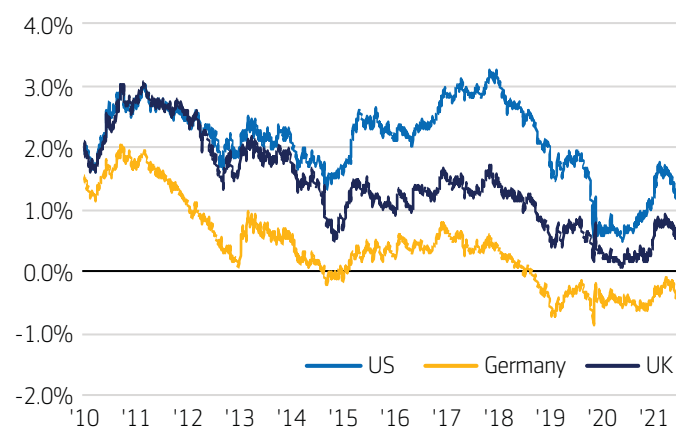


Markets

Sovereign bonds

Despite a fairly strong economic recovery from the pandemic and a higher inflation rate, most sovereign rates are still below their pre-pandemic levels (see figure 1). So will rates rise in the coming years in line with the expected economic rebound?

Figure 1: 10 year sovereign interest rates (As of Aug-21)



Source: Bloomberg, Aegon Asset Management 2022-2025 Projections provided by Aegon Asset Management

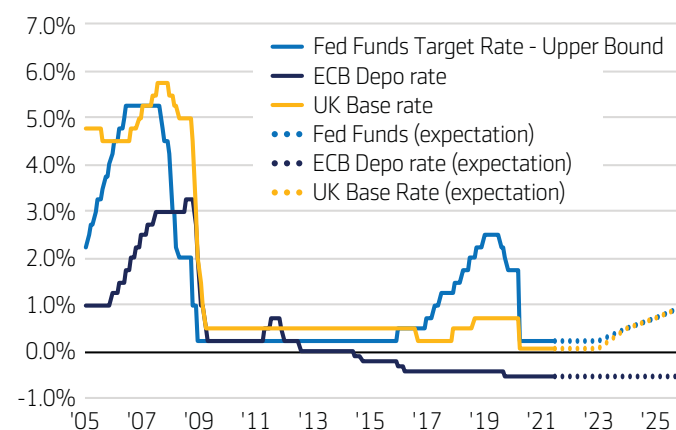
Based on our economic views, we have constructed an expectation of central bank policy. This encompasses more than only a view on central bank rates. Especially as post the credit crisis, other policy measures of central banks have become just as important. For example, the large Quantitative Easing programmes influence the longer end of the yield curves while bank lending operations indirectly influence rates as well.

We expect the Fed to be able to announce tapering (i.e. reducing net purchases) in 2021 and to actually start in 2022. This will be a gradual process, which is already largely expected. It is therefore unlikely that rates will suddenly sharply increase. The Fed and investors, have likely learned from the “Taper tantrum” experience in 2013, when rates moved higher on the announcement that tapering would start. A change is therefore likely to be well communicated in advance. The Fed is likely to raise its main policy rate after QE has been wound down, starting around 2023. We expect the pace of rate hikes to be very slow, with rates rising only to around 1% in 2025. Due to the sharp rebound from the pandemic, the economy will be operating at full capacity from 2022. We therefore expect that rate markets and the Fed will price in an end to the economic cycle. Also, the sharp rise in debt levels and low rates in other parts of the world, will exert downward pressure on yields.

In Europe we expect the ECB to continue its purchase programmes. During the pandemic it had setup the Pandemic

Emergency Purchase Programme (PEPP). And before that it had the Asset Purchase Programme (APP). Whatever the acronym will be in the future, the ECB is in our view very likely to continue its QE programmes as it wants to ensure a fuller economic recovery and wants to prevent financial tightening due to the large issuance of government debt in 2022. If economic conditions improve, we expect these programmes could be reduced starting in 2023. We don't anticipate growth or inflation to imply any rate hikes by the ECB. Therefore, we presume the depo rate to be anchored at its current level of -0.5% at least until 2025.

Figure 2: Monetary policy (As of Aug-21)

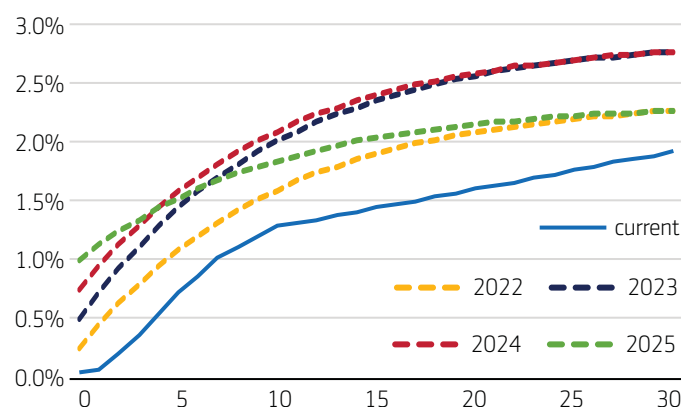


Source: Bloomberg, Aegon Asset Management 2021-2025 Projections provided by Aegon Asset Management. Hypothetical example for illustrative purposes only.

The short-end of the yield curves is largely determined by central bank policy rates, while the longer end of the curve is influenced by expectations of future policy rates and by QE programmes.

For the US our yield curve expectations are shown in the figure below:

Figure 3: Expected yield curves for US Treasuries Current curve (as of Aug-2021)

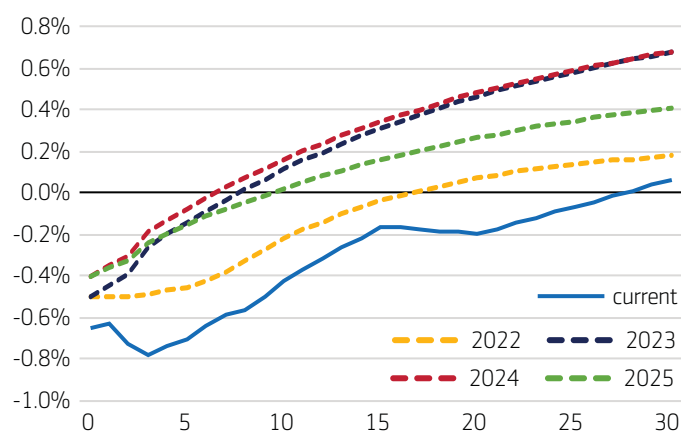


Source: Bloomberg, Aegon Asset Management 2021-2025 Projections provided by Aegon Asset Management. Hypothetical example for illustrative purposes only.

The short-end of the curve increases as the Fed starts hiking in 2023. The longer end of the curve also moves higher due to the termination of QE programmes, elevated issuance of government debt and expectations of growth and inflation. Toward the end of the period, we expect markets to price in an end to the cycle, where long term rates would again decrease. In this scenario we expect the 10-year Treasury yield not to increase much above 2%, which is low compared to historical averages.

As mentioned, in Europe we expect the ECB to maintain its current policy rate. This will anchor the short-end and limit any volatility of longer-term rates. Currently, the German yield curve (figure 4) is downward sloping at the short-end, but we expect this is a temporary anomaly, allowing that part of the curve to move higher in 2022. In later years, the yield curves are likely to become more upward sloping as a rate hike farther out will become more likely. In this scenario, 10-year German yields will reach a high point of 0.2% around 2024.

Figure 4: Expected yield curves for German Bunds
Current curve (as of Aug-2021)



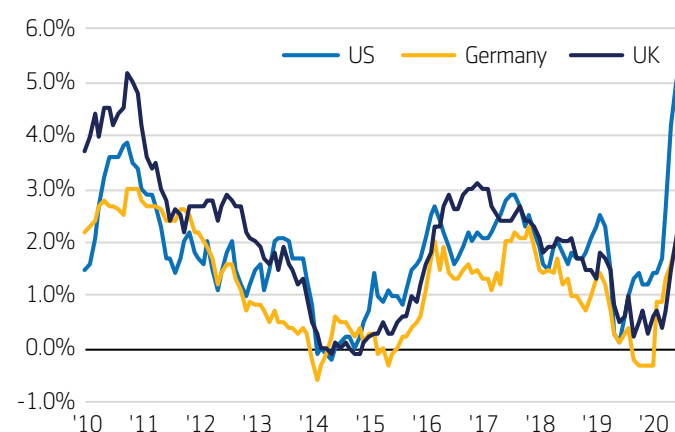
Source: Bloomberg, Aegon Asset Management 2022-2025 Projections provided by Aegon Asset Management. Hypothetical example for illustrative purposes only.

As described in the section on the NextGenEU fund, the European Union (EU) is becoming a major sovereign issuer in its own right. The NextGenEU fund is in theory temporary,

but in practice this is likely to evolve into a more permanent shared fiscal facility. In this case, the EU bonds would become more like the Treasury market. This is especially important for the outlook on rates. Currently, interest rates are constrained by economically weaker member states, mainly Italy which has structurally low growth and high debt. Any significant rate hikes or withdrawal of QE could result in an economic slowdown which the ECB wants to prevent. In the case of a transfer union, the weaker links would no longer constrain monetary policy, so a credible shared fiscal instrument could over time result in higher interest rates. Although the EU is moving towards this solution, we expect this to take many more years.

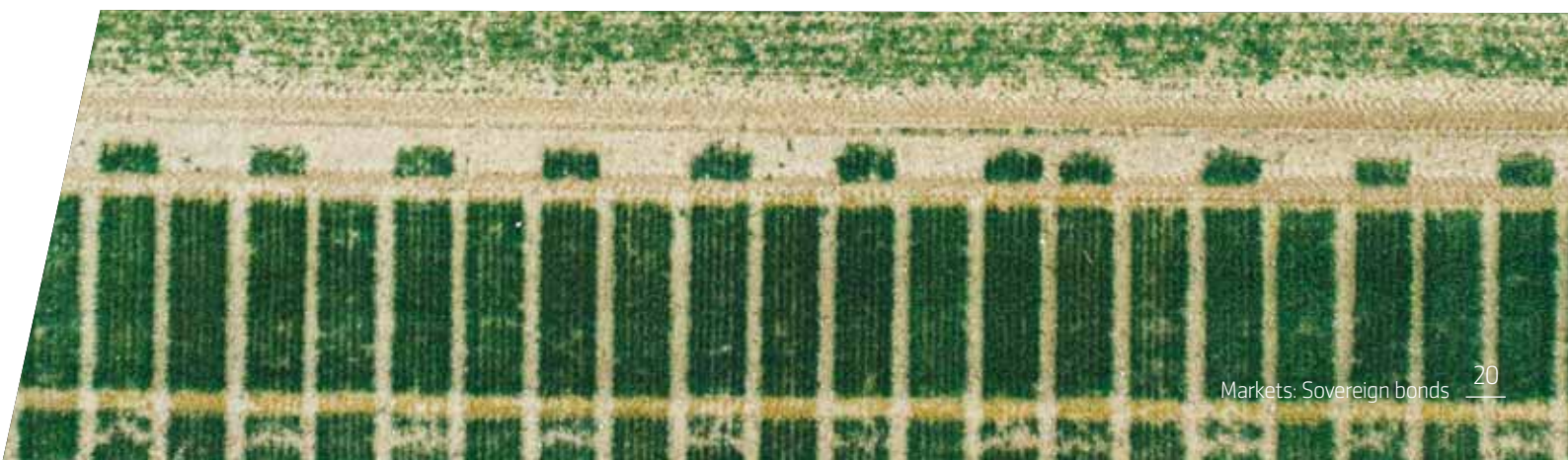
A key uncertain variable in our forecast is the level of inflation. Recently inflation has increased sharply (see figure 5), especially in the US, which has seen a dramatic increase of the headline CPI rate to more than 5%.

Figure 5: Consumer prices (CPI) (as of Aug-2021)



Source: Bloomberg, Aegon Asset Management

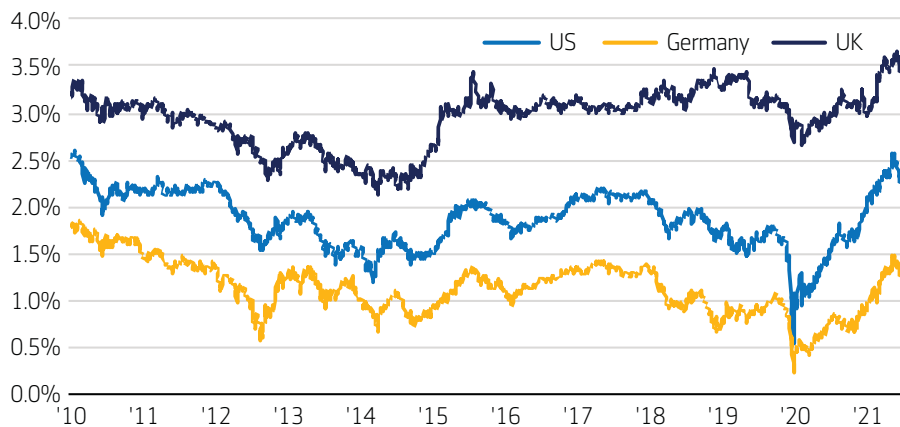
Still, we expect this inflation boost to be largely transitory. Due to supply constraints and the reopening of economies, demand for goods have outstripped available supply. This has led to shortage in everything from semi-conductors to washing machines. Also, the rebound in air fares and hotel



prices led to a sudden increase. As economies normalise, we expect these supply disruptions to be resolved leading to a normalisation in prices. For more persistent inflation, wages would need to structurally rise. Employment is however still far below pre-pandemic levels and structural factors, which have constrained wage growth in previous years will likely keep a lid on wage growth going forward. These are for instance, the decline in unions and the low labor intensity of new industries.

Inflation expectations can also be derived from the pricing of inflation linked bonds (see figure 6). These levels have steadily increased after the initial drop at the onset of the pandemic. However, note that the market still expects inflation to be lower than the 2% target of the ECB. In the US, breakeven rates are marginally above that level, but don't point to a persistent change in the inflation regime.

Figure 6: 10 year breakeven inflation rates (As of Aug-21)



Source: Bloomberg, Aegon Asset Management

Corporate Credits

In our outlook of last year, we wrote that the liquidity risk for credits was addressed by central bank support after the pandemic started. However, we were concerned about the impact on solvency of companies as a result of the economic impact. In recent quarters, the economy and the earnings prospects for companies have surprised positively. Companies, and the economy in general, have been able to weather the pandemic better than initially feared. This reduces the solvency risk and therefore also our expectation of company defaults. Early in the pandemic, companies slashed buybacks, dividends and investments, which helped to conserve cash.

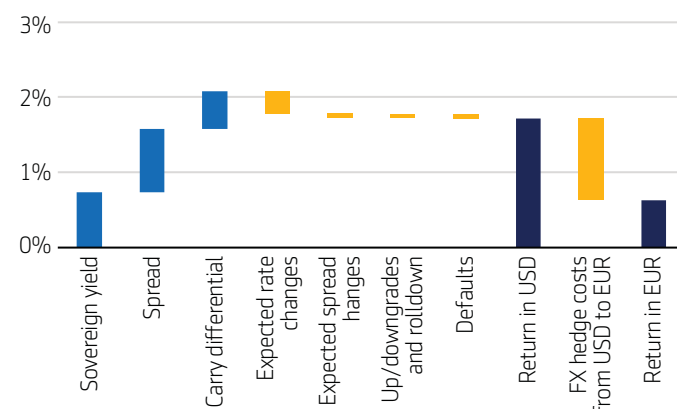
Central banks have maintained purchase programmes, which resulted in declining sovereign yields and spread contractions. Financing costs have therefore fallen. In our rates outlook we expect central banks to maintain an accommodative stance.

Several sectors will struggle to return to their pre-pandemic situation, like airlines and parts of the hospitality sector. On balance however, we expect rating agencies to upgrade companies in both the investment grade and high yield market. Several large companies had been downgraded from investment grade to high yield and in the coming quarters, we expect the reverse to happen. For example, several automotive companies or steel companies are likely to move back to investment grade. While also within investment grade, there is likely to be a positive rating drift. Currently, slightly over half of the investment grade index consist of BBB-rated companies, which has never been higher.

The fundamentals for corporate credits are strong, however markets have largely priced this in. Spreads are historically low, especially when correcting for the larger share of BBB's in investment grade. We expect spreads to marginally widen, as investors start pricing in less central bank support.

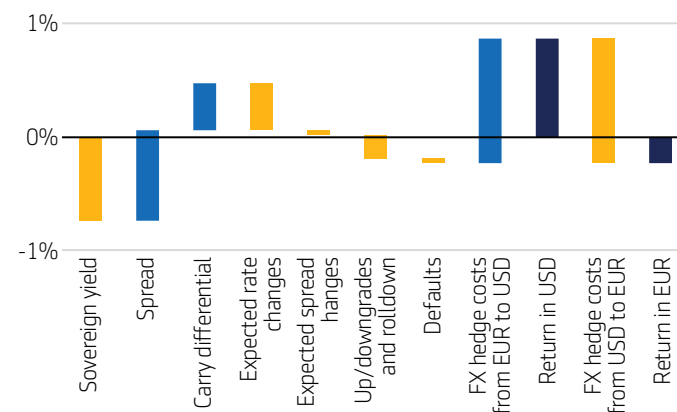
Due to the low sovereign yields and low spreads, overall returns are therefore likely to be lower compared to historical averages. Figure 1 shows how our return expectation for investment grade credits is derived from its various components.

Figure 1: Expected returns for USD investment grade bonds (As of Aug-21)



Source: Bloomberg, Aegon Asset Management 2022-2025 Projections provided by Aegon Asset Management. **Hypothetical example for illustrative purposes only.**

Figure 2: Expected returns for EUR investment grade bonds (As of Aug-21)



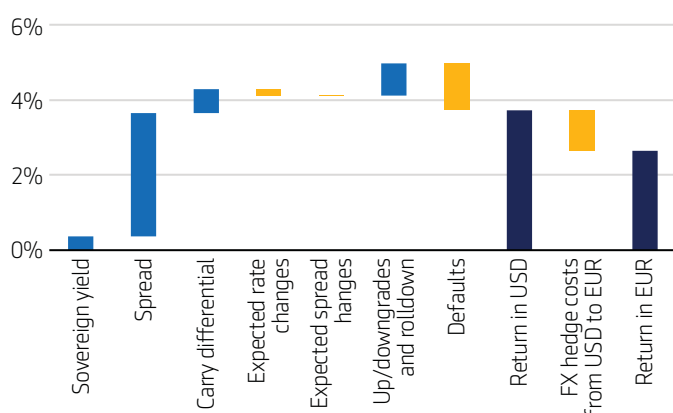
Source: Bloomberg, Aegon Asset Management 2022-2025 Projections provided by Aegon Asset Management. **Hypothetical example for illustrative purposes only.**

The return expectations are very close to the current yield (As of Aug-21) of the asset class. On average, returns on credits are slightly lower than the starting yield. Despite this we are expecting a positive rating migration, the net effect on returns is nonetheless marginally negative as downgrades have a more pronounced negative effect compared to upgrades due to the upward sloping credit curve. Note that there is a sizeable difference of 1.1% between the expected return as measured in US dollar and Euro. This is due to the current and expected interest rate differential, where interest rates are higher in the US. Also, a slight difference is caused by the cross-currency basis which is currently negative for Euro based investors.

For high yield we also expect a return which is roughly in line with the current yield. As mentioned, on average we expect a positive rating migration drift. When companies are upgraded

within high yield or move to the investment grade sector, spreads generally tighten in anticipation of that change. On a net basis we expect this to have a positive effect on returns. Within high yield, we expect defaults to be below historical averages due to the benign economic scenario and low financing costs. We also expect recovery rates to be relatively high, due to strong financial markets, and we expect spreads to widen marginally as central bank support is likely to become slightly less accommodative.

Figure 3: Expected returns for USD High Yield (As of Aug-21)



Source: Bloomberg, Aegon Asset Management 2022-2025 Projections provided by Aegon Asset Management. Hypothetical example for illustrative purposes only.

European Asset Backed Securities

European Asset Backed Securities can benefit from low duration, as a large part of the index has floating rates. Spreads on the asset class have tightened, but still offer a pick-up relative to similar rated corporate credits.

The asset class consists for a large part of consumer related ABS. In general, the consumer has been weathering the pandemic relatively well as government support schemes have supported incomes and limited defaults. When these programmes run-off, there might be some increase in delinquencies. However, in structures where underwriting has been strict and exposure to self-employed borrowers is limited, we expect only a very limited uptick. Also debt service affordability has improved as interest rates have steadily declined further. Residential ABS forms the largest part of the market. Housing markets have been strong, and employment has been resilient, resulting in a strong fundamental backdrop. While spreads have tightened, there are still some opportunities, especially down the capital structure.

A spread pickup is still available in the CLO (Collateralised Loan Obligation) market. As these are backed by corporate loans, the correlation with the corporate credit market is higher. The CLO market in general, has a lower exposure to sectors which experienced high default rates like mining and oil. Going forward, we expect a benign default environment.

The inherent structural features like credit enhancement and diversion triggers, should limit any impairment to the equity tranches of the structures in such a scenario.

Overall, the combination of a spread pick-up and negligible impairments will result in a decent excess return on European ABS. We expect returns on Investment grade ABS to be around 50 basis points (bps) above investment grade corporate bonds. For high yield rated ABS, we expect a return of approximately 150bps above high yield bonds.

(Dutch) Mortgages

We remain constructive on the Dutch mortgage market. Credit risk remains minimal due to the strong payment morale of borrowers, full recourse and government backed guarantee schemes. At the same time, credit spreads remain elevated as the main lenders, larger banks, have had to deal with high capital requirements. There is therefore likely to be a natural soft floor on how far spreads can fall, before these banks will curtail lending. We have estimated this floor is likely to be around 130bps over swap rates.

New entrants on the mortgage markets have resulted in tighter spreads, but the main three Dutch banks control still 50% of the market. The marginal supply of mortgages is therefore still dictated by the return on capital requirements of these banks.

The collateral, the Dutch housing market, has been very strong. Low interest rates have resulted in higher prices. Generous government support schemes make owning a house relatively affordable while new supply of housing is constrained. We therefore expect the housing market to remain strong, resulting in a high recovery value on any defaults. Loan-to-value ratios have come down but are slightly higher compared to those seen in other countries.

Overall, we expect excess returns to be in line with the current spread, which varies between 150 and 190bps above German bunds.

Alternative Fixed Income

Apart from the main fixed income asset classes, there are also several asset classes we capture under the "Alternative Fixed Income" category. The range of assets is very diverse, and can range from state-backed loans, to subordinated SME financing. Risk and return characteristics can also vary widely. They do have in common, that they often offer a risk premium relative to other similar rated or similar risky assets. This could be partly due to illiquidity, but is also likely due to their more specialised nature. It requires more expertise from the asset manager to select and manage these assets.

Overall, we expect a significant return pick-up will be available in the coming years in Alternative Fixed Income.

Emerging Market Debt

We remain generally constructive on emerging market fixed income assets, reflecting a view that the asset class will benefit from global growth recovery, capital flows, stable US Treasury yields, and a weaker US dollar. The global abundance of liquidity, relatively attractive valuations compared to low and negative yielding debt from developed markets, and growth differentials will be important drivers of EM asset class performance. We expect emerging market economies to benefit from improving economic performance in developed markets and China. Given trade and capital linkages, a strong rebound in consumption, and strong manufacturing PMIs in combination with worldwide input-shortages are all supportive for emerging economies provided they can respond quickly to rising demand.

Global trade has rebounded in 2021 to above pre-crisis volume levels, reflecting the strength of the recovery. China was the first country where the economic revival got under way, and with being a very large user of raw materials demand for commodities recovered rapidly. With the global economic activity trending upwards, supported by the progress of vaccination programs, pent-up demand, fueled by accumulated savings and postponed investment, the external positions for emerging market commodity producers should strengthen. However, further improvement in global economic activity is highly dependent on the evolution of the pandemic. Covid-19

related uncertainty is far from gone, but improved vaccination rates in developed and emerging markets means the impact of newly emerging variants is likely to be less severe.

The accommodative monetary stance has been a tailwind to the asset class over the past two years. However, as easing measures are likely being curtailed, with US Federal Reserve (Fed) tapering looming on the horizon and several central banks in the emerging economies having to respond to closing their output-gap and rising inflation, emerging markets will face rising debt and refinancing costs. EM investors concerned about a repeat of the 2013 Taper Tantrum remain reassured by the Fed's view that factors within recent inflation prints are likely to prove transitory. Notably, that comes in the context of a recent trends in inflation observed in the United States. Unlike China with external sovereign debt primarily in domestic currency, other emerging economies have sizeable external debt and/or foreign investors that own a sizeable share of domestic debt. Elevated debt levels across the universe will therefore require monetary and fiscal discipline, and some countries are likely to seek debt forgiveness under the G20 Debt Service Suspension Initiative (DSSI) Common Framework. Additionally, the International Monetary Fund (IMF) US\$650 Special Drawing Rights (SDR) will provide additional liquidity, thus supplementing countries' foreign exchange reserves and reducing their reliance on more expensive domestic or external debt.

Within EM, we observe a divergence in the speed of economic recovery with Latin America and African countries clearly lagging emerging Asia. Once the remnants of the pandemic have been dealt with, which in certain emerging economies might take longer, they may experience a decelerating trend in GDP growth, signs of which we observed already before the outbreak of the Covid-19. New Covid-19 cases continue to rise in EM economies led by the delta variant. So far, this hasn't proven a major concern, however, the outlook for 2021-2022 is contingent on levels of immunity and vaccine rollouts. Under the World Health Organization COVAX initiative, vaccines are being made available in developing economies, with richer countries subsidising costs for poorer nations.

Emerging market debt spreads have, on balance, seen a compression since the summer last year, with 2021 bringing a flattening to a level around historical averages. Given the strong recovery in economic activity we expect a decent excess return over developed market sovereigns in the next four years. Higher global commodity prices and food prices will likely add pressure to inflation and hasten monetary policy normalization in emerging markets. Going forward, the trajectory of Covid-19 cases, evidenced by the spread of the delta variant, the improving global growth outlook, and US Treasury yields, will remain central to our asset class outlook.



Private Debt

Since the global financial crisis, private debt has been growing quickly as an asset class. With stricter regulations banks have had to reduce their lending activities, leaving an opportunity for other institutional investors to fund companies, infrastructure and real estate projects that need debt financing. According to Preqin, private debt market size reached US\$887 billion as of June 2020. This is not as large as private equity or real estate, but it still represents a substantial opportunity set next to the available public debt markets. The willingness to invest in private debt has been growing as well. Low policy rates and bond buying programs of central banks during the pandemic have further depressed available yields in public markets while equity valuations have recovered, such that investors are increasingly looking for further diversification opportunities. Private debt has the potential of delivering additional risk and complexity premia for investors with enough room for illiquidity and sufficient resources to select and monitor the deals. Also, opportunities exist to deploy ESG strategies in the asset class, most notably in the infrastructure space. For example, corporate lending managers are increasingly looking to deploy capital with positive impact and are improving their ESG processes and reporting.

Pandemic impact

Private credit markets largely came to an abrupt halt at the start of the pandemic, but rebounded late last year and have continued to be active during 2021. Money raised by private debt funds in 2020 was only slightly lower than 2019 as capital raised for distressed debt opportunities increased, even though quick intervention by governments and central banks saved most companies from having to

restructure their finances. Returns have seen little impact from the pandemic. Better covenants compared to public markets have helped in shielding investors from losses. As institutional investors continue their search for yield, the pandemic has not caused available yields to be structurally higher and additional funds have been available. Still, available yields make the private debt market opportunities attractive compared to public markets, in general.

Corporate lending

Private debt consists of a broad range of strategies. An important part is corporate lending, with companies that, due to their size or special requirements, find public markets less accessible or attractive. Also, the speed of acquiring capital or not wanting to share too much information publicly can be reasons for companies to tap into private markets to fund buyouts, acquisitions and investments. By tailoring their offer to company preferences, managers can facilitate these companies and thereby create attractive investment opportunities with relatively attractive yields and strong covenants.

Many managers source their deal flow from private equity firms (sponsored private lending), with the benefit of a more standardized information flow. Private equity tend to support their portfolio companies by, for example, intervening in operations in the periods of economic downturn such as occurred during the start of the pandemic. Non-sponsored corporate lending can result in higher yields. Strategies aiming at core senior lending within less risky sectors and strong covenant protection often have target rates of return of 4% and higher with credit ratings around the BB mark. Loss rates are typically low due to stable businesses and strong covenants. Mid-market or special situation financing

can yield substantially higher, depending on leverage levels and specific risks. While expected loss rates are higher, they still result in very attractive expected returns, rivalling and sometimes exceeding long-term return expectations of public equities for example. The corporate lending market is diverse in types of loans, companies and risk levels, and has a sufficient number of specialized managers available, making corporate lending a good basis for a private debt portfolio.

Tailored portfolios and ESG

Infrastructure and real estate financing offer opportunities to target specific responsible investment objectives as well. A lot of capital is required to fund the transitioning of society into a sustainable one. Impact investing in infrastructure is popular, but investors often have to accept somewhat lower yields than offered on other private debt markets due to popular demand and, in certain cases, specific regulations, like the one for European insurers lowering the capital requirements for these investments. Opportunities in water, water treatment, communications and mobility are also available. Investors requiring their private debt investments to contribute to long term liability hedges might find real estate markets most attractive. Further diversification can be found in different types of loans to consumers, but also trade finance (characterised by short maturities) and insured private loans. The latter two can be especially appealing to insurers with generally higher capital requirements. A high demand for real impact investing but still a limited supply of deals that conform to the strictest definitions makes building such a portfolio less easy or at least a more time-consuming process. Within corporate lending, ESG ratchets are finding their way into contracts to penalize or incentivize companies on the sustainability front. We believe the diverse existing opportunities and ongoing development of the private debt market make it a good choice for supporting sustainable investment returns.

Further diversification in private debt

Private debt offers investors a broad range of opportunities. Different types of creditors and sectors, choice of seniority in the capital structure and available covenants make it possible to tailor a portfolio to more closely align with investor beliefs, risk budget and other (ESG) requirements. With public debt markets yielding very little, we expect private debt to grow in importance for institutional investors leading to further development of the market. Additionally, the search for yield also means selecting well-informed managers with strong deal sourcing capabilities and risk management is important.

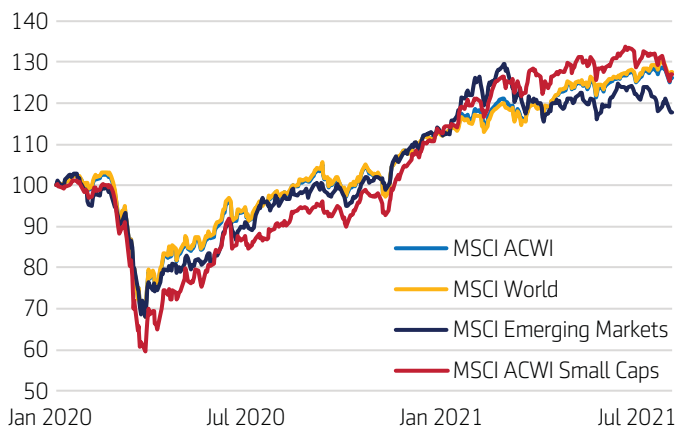


Equities

After the rapid and sharp decline in the first quarter of 2020, shares have generally recovered quickly and strongly. By the end of 2020, share prices had recovered from the shock that caused equities to fall by a third in February and March 2020. In 2021, prices gains have continued and although the increase has eased somewhat in the course of 2021, returns have been strong for 2021.

The strong recovery in equities is due to the supportive monetary and fiscal policies worldwide and the acceleration of trends such as online shopping and technological developments. Within equities, there are large differences in the degree of recovery. Tech companies in particular have benefited, while the energy sector has lagged far behind. In addition, small caps were hit hardest last year due to their higher sensitivity to economic growth, and lagged in the recovery until later in 2020. It was the large cap companies in particular that led the recovery, especially the large technology companies. Small caps have seen a sharp rise since the last quarter of 2020 after it became clear effective vaccines were available and the economy would recover.

Figure 1: Strong recovery for equities after Q1 2020



Source: Aegon Asset Management, Bloomberg. As of August 2021

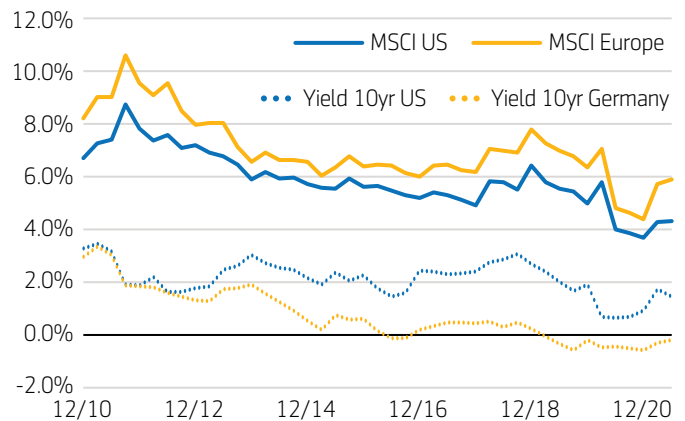
In the longer term, small caps are expected to show higher earnings per share growth compared to large caps and can be a good addition to global large cap equity portfolios. However, small caps have shared less in the returns of dominant tech companies in recent years. The last time small caps underperformed was in the years 2007-2009 with outperformance in the following years. Future relative performance in the shorter term will depend on the speed of economic recovery and developments at the major tech companies.

Are stocks expensive now?

The question most investors have is whether stocks are expensive right now.

If we look at valuations, from a historical perspective, shares are priced expensively at the moment. One reason for this is that interest rates are low and spreads on many fixed income asset classes are also low as a result of the 'search for yield'. The earnings yield on world equities (the inverse of the price-to-earnings ratio) is at the lowest levels in a long time. The difference between the earnings yield and the interest rate on government bonds gives an indication of the compensation for taking equity risk and this measure is also at historically low levels. So based on standard valuation metrics, stocks are indeed expensive.

Figure 2: Earnings yield on equities vs. government bond yields



Source: Aegon Asset Management, Bloomberg as of August 2021

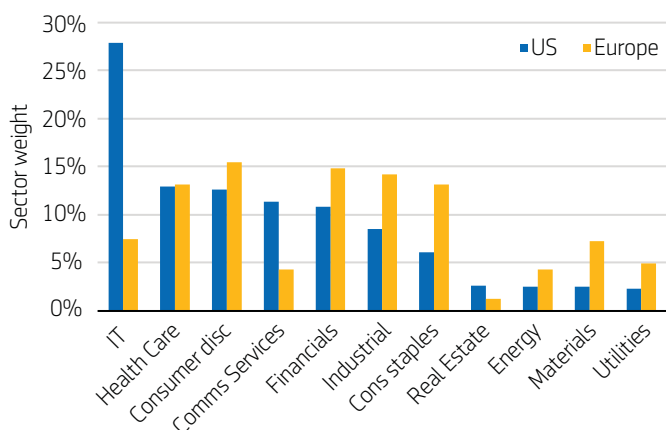
Sector differences cause valuations difference between the US and Europe

If we look at regions, US equities in particular are currently relatively expensive. This difference in valuation is largely explained by the sector composition. The US has a greater weight to the highly valued tech sector (see figure 3), while Europe has a higher weight in lower valued sectors (i.e. financials, energy, materials and utilities). When comparing valuations between similar sectors of both regions, they are much closer together, although the valuation in the US is generally still slightly higher. The higher sector valuation in the US can be explained by the higher profit margins and more shareholder focus, which makes companies better able to grow profits.

The high valuation of the tech sector is a result of the strong growth in this sector. Clearly, there has been a trend towards greater use and adoption of technology, which has been even

further accelerated due to the pandemic. As an example, corporate profits in the tech sector have grown almost twice as fast as those of the broad index. Assuming the tech sector can sustain this rapid growth in to the future, this also justifies a higher valuation of this sector.

Figure 3: US sector composition is tilted toward technology



Source: Aegon Asset Management, Bloomberg as of August 2021

Another reason for the high valuations is the expected earnings growth. In 2020, there was a severe decline in reported profits due to the impact of Covid-19 on the global economy. Reported profits fell by a quarter globally though again, there were large differences in regions. For example, profits in emerging markets fell less than in developed markets, while in developed markets, profits in Europe fell much faster than in the US. In the course of 2021, it became clear that economies worldwide would recover quickly and corporate profits will grow back to new records in 2021. For 2021, we expect profits to grow about 30% compared to 2019. For the following years, we assume a flattening of the profit growth towards historical averages.

Taxation as a risk

For the coming years, we see a number of risks for stocks. One is an increase in corporate taxes which in recent decades have steadily declined. Countries have been competing against each other to offer companies lower tax rates to stimulate job creation, both at the companies themselves and within the supply chain. However, in the past decades governments debt has risen and the pandemic has caused many governments to set aside the budgetary rules, as a result, debts have risen sharply. These debts will eventually have to be reduced and the question is who will pay for them. Both in the US and in Europe, signals of a higher corporate tax rate are getting stronger. A recent example of this is that

the world's 20 largest economies have signed a plan for global reform with a minimum tax rate for multinationals. This should limit multinationals from moving their profits to tax-friendly countries. Also taxes on technology companies, seem to be gaining support in Europe. Ultimately, higher taxes for companies will have a negative impact on corporate profits and therefore also on equity returns.

Outlook

For developed markets, we expect a return of just under 6% annually in US dollar terms for the coming years. Our return assumption is based on factors that determine the return on equities. The dividend yield and return from share repurchase programs (buyback yield) by companies should be lower than in recent years due to higher valuations. We expect a dividend yield of approximately 1.6% and a buyback yield of approximately 1.0%.

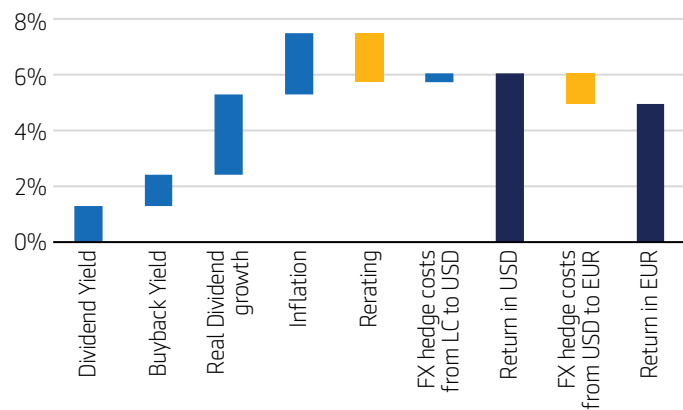
An important component of long-term equity returns is profit growth. For the coming years, we expect corporate profits to rise further and as a result dividend and buyback growth will likely be higher than inflation. We are assuming 2.9% real dividend growth and 2.2% inflation.

The expected profit growth should be partly offset by a revaluation to slightly lower valuation levels. However, we expect equity valuations to remain above historical average due to low yields on fixed income assets. On balance, we expect a negative revaluation component of approximately 2%.

Hedging the return on equities to the US dollar currently shows a small positive benefit, as non-US short-term interest rates are on average slightly lower compared to short-term interest rates in the US. When hedging the return on equities to the euro, there is currently a negative effect, as euro interest rates are significantly lower. In euro terms, we expect a developed market return of approximately 5% per year.

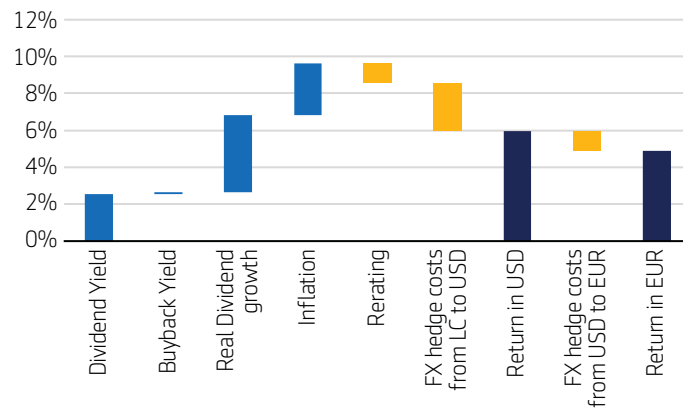
Within developed markets, we are more positive about the US than Europe. This is mainly driven by the previously described sector composition of the regions in combination with the expectation that the accelerated trends towards digitization and automation will continue in the coming years. As a result, technology companies are also expected to grow faster than the more traditional sectors in the coming years. We therefore expect profit growth in Europe to lag behind the US.

Figure 4: Expected Returns - World Equities
ACWI (FX hedged to USD and to EUR) average annual returns until 2025



Source: Aegon Asset Management, Bloomberg as of August 2021. Hypothetical example for illustrative purposes only.

Figure 5: Expected Returns - Emerging Markets Equities
Emerging Markets (FX hedged to USD and to EUR) average annual returns until 2025



Source: Aegon Asset Management, Bloomberg as of August 2021. Hypothetical example for illustrative purposes only.

For emerging market equities, we expect returns close to developed markets. The dividend yield is higher with 2.5%, partly due to the more favorable valuations. Furthermore, the expected profit growth is significantly higher than in developed markets. We also expect a negative impact of the revaluation component. Hedging equity returns has a negative impact, because short-term interest rates in emerging markets are higher than in the US and Europe. Overall, we expect a return of approximately 6.0% annually in US dollar terms, and 4.9% in euro terms..



Real Estate: Benefitting from a stable scenario

The listed real estate sector was hit especially hard during the Covid-19 correction. The sector normally benefits from relatively stable rental revenues, yet as businesses closed rent collection rates dropped while the main cost for real estate investment companies - interest expense - continued. Following a tempered recovery in the second half of 2020, 2021 has been much better. However, the sector has only partially recovered relative performance versus general equities. We remain modestly positive on the sector over the medium term as fundamentals remain supportive.

The acceleration in ecommerce volumes and the working-from-home trend during the Covid-19 lockdown will not fully reverse as economies open resulting in a lasting impact on retail and office sectors. However, this doesn't necessarily imply muted returns on listed real estate as a whole, as the share of these sectors has declined to only a quarter of the index. Other sectors including residential, healthcare, self-storage and logistics represent a more dominant share of the index now and these sectors are likely to benefit from higher quality and growing earnings.

The situation for retail and office REITs is not all bad. After an acceleration in supply due to project re-starts post Covid, we expect it to decline on the medium to longer term. Meanwhile, the listed real estate companies have improved the quality of their underlying real estate portfolios and improved balance sheet ratios since the global financial crisis, making them more defensive. Most vacancies in retail and offices are foreseen in secondary submarkets.

The macro environment remains supportive. Investment and financing markets continue to serve as a support, especially as we expect interest rates and spreads to remain low. This keeps interest expenses low, limiting expenses growth. On the revenue side, we believe inflation will drive rental indexation and benefit the sector. The result is that margins will likely exhibit decent growth rates.

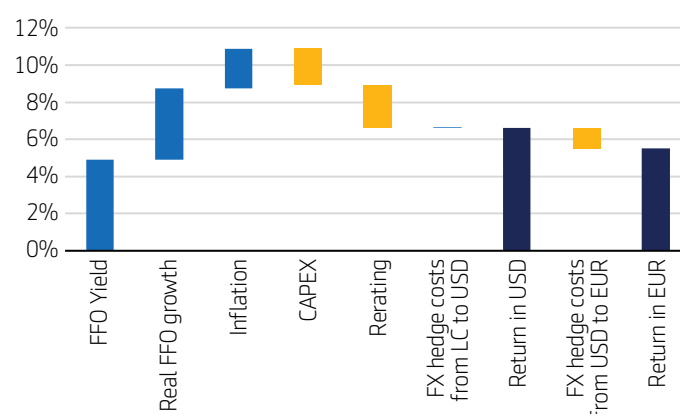
The biggest tail risk for the sector is central banks as around the world they were quick to aggressively cut rates and provide liquidity as the pandemic created shock waves in financial markets. If this support is withdrawn too quickly the capital intensive industry of real estate would be impacted.

Assuming a relative stable scenario we expect growth in earnings to continue and the sector to do relatively well. We believe the upside is only limited by current valuation ratios, the sector is no longer cheap but still leaves room for modest single digit performance.

Current funds from operations yields (FFO), a measure for earnings in REITs, is around 5%. We expect the sector to

be able to grow FFO by around 6%, which is approximately 4% in real terms. This growth assumption is based on a conservative estimate of rent increases and on the inherent leverage of the sector. As the cost of debt is historically low, this has a positive effect on translating rental growth into FFO growth. As real interest rates are expected to increase marginally, we expect this to have a negative impact on listed real estate of approximately 2% per annum. Real estate needs to be maintained and refurbished by the owners, this expense is captured in the CAPEX item which we estimate at almost 2% per annum. All in all, we expect the sector to return around 6 to 7% in US Dollar, which equates to 5% to 6% in euro, the difference being caused by the interest rate differential.

Figure 1: Expected Returns - Listed Real Estate (As of Aug-2021)



Source: Bloomberg, Aegon Asset Management, Refinitiv 2022-2025 Projections provided by Aegon Asset Management. **Hypothetical example for illustrative purposes only.**

Real Estate: Sector trends

Real estate markets have markedly improved compared to last year. The number of bankruptcies remains relatively low due to massive fiscal support from governments. It's expected the long-term impact of Covid-19 will become more visible when governments reduce their aid packages and banks become more restrictive in their lending to corporates.

Despite this ongoing economic uncertainty, transaction volumes are back on track and valuation uncertainty is diminished, especially for residential, logistic and office investments. Retail and hotels are still suffering, and surveyors are still struggling to find sufficient and comparable reference transactions when valuing these buildings.

Covid-19 clearly caused a dichotomy between real estate sectors. The lockdowns of global economies accelerated ongoing trends for example online retailing. In addition, the amount of new real estate supply is still limited in a lot of countries and most of the new supply is already pre-let before completion.

A factor that still drives real estate demand is the ongoing low interest environment. This mainly drives demand for logistics and residential property. A lot of investors consider stable rental income as a substitute for bond coupons. The ongoing low interest rate environment also influences the projected total returns for the global real estate sector.

The logistics sector is expected to be a relative winner in the next few years, as demand continues to be supported by the continuing growth of e-commerce sales albeit at a slower pace. Nevertheless, as economies re-open and demand begins to experience a more broad-based recovery, one could see a slight divergence on occupier fundamentals. Therefore, the demand-supply dynamics in each market is increasingly important to monitor.

Residential markets, thanks to their combination of size and higher frequency of leasing, are an excellent barometer for economic reopening. Although occupancy rates of rental homes continue to be high, one may observe that vacancy rates slightly increase because vacant premises can't be re-let before old tenants have left. In addition, it takes somewhat more time to re-let a luxury apartment in the top segment of the market.

It is remarkable how quick office users adapted to the new normal when the Covid-19 outbreak started. White collar workers are increasingly able to do their ordinary work from home. therefore, it's expected that office buildings will become more of a meeting point for doing business. The traditional function of an office building will become less important. This causes owners of office buildings to redefine investment

strategies and to focus on office locations that fit into this new way of working.

In Europe, higher-quality offices are viewed as well positioned to outperform and escape the structural headwinds. In the US, offices are expected to remain an underweight in core portfolios due to high capital costs and elevated volatility. In Asia, the overall more positive outlook and the depth of investor interest make offices a continued sector of interest.

The future for retail and hotels looks less appealing. Traditional retailers are still suffering from low turnovers due to Covid-19. When these traditional retailers lack an appealing online platform it's hard to survive. This causes ongoing rises of initial yields while valuation drops. Food and beverage is one of the few retail segments that benefited from Covid-19. Supermarkets saw their turnovers rise which caused an increasing demand from real estate investors for this sub-sector of the retail market. Increasing activity from higher return cross-border investors is appearing in Europe. This is currently focussed on the UK where pricing for high-quality retail softened more than in any other market. Investors tend to focus on the most resilient sub-sectors; open-air retail parks and grocery-anchored schemes. There is a mix of push and pull factors for core investors to consider retail assets. On the one hand, they will be pushed to invest in retail by record high values in the favoured residential and logistics sectors. The pull factors will focus on surviving, top-tier retail. These survivors can also thrive, as the stock of underperforming retail is removed from the market and can earn a role in a long-term portfolio.

Hotels remain in a dire position. It's still a big question whether business travel will restart once most people are fully vaccinated. The summer season and the desperate need of people to enjoy their holidays might offer tourist-oriented hotels opportunities to increase occupancy rates during the second half of 2021 and beyond. But again, some caution is in order; as new Covid variations might harm travel going forward.

The pandemic has accelerated the mainstreaming process of niche sectors (e.g., medical offices, data centers, science parks, student housing, etc.). This continued maturation of niche sectors has not only been a US story, but also played out in many other regions. This continued global maturation, along with the blurring of lines between niche and conventional sectors, will continue to reshape real estate portfolio construction in the years ahead. Investors will have to balance allocations among a larger number of sectors than previously, adding complexity to an already difficult process. To be successful, the impact of adding specialized sectors must be accretive to financial performance.

Private Equity

Private markets form a large part of the world economy, with the majority, an estimated 86% of worldwide companies with over 500 employees, being private. Private equity is the main avenue for investing in this space and it has steadily grown to US\$4 trillion of assets under management at the end of 2020. The pandemic has impacted private markets, both in the short and long term. Despite these turbulent times, performance of private equity funds have continued to hold up well and the sector now seems to have left the pandemic behind with deal activity at record levels. The good economic prospects, attractive return potential and cheap debt financing is driving the inflow of fresh capital. This, combined with the possibility to execute on ESG and sustainability initiatives, makes private equity an appealing asset class – now and in the future.

Private markets proceed during pandemic

At the start of the pandemic, private equity (PE) managers helped their portfolio companies to safeguard their employees and activities by sharing knowledge between companies and helping them to apply for government aid. At the same time, PE managers intervened where necessary by cutting costs or providing extra capital. Because of these actions, together with the large fiscal and monetary support, private equity returns held up well and few bankruptcies were reported. However, significant differences exist between industries, with companies in healthcare and technology generally outperforming while companies in retail and leisure are lagging overall.

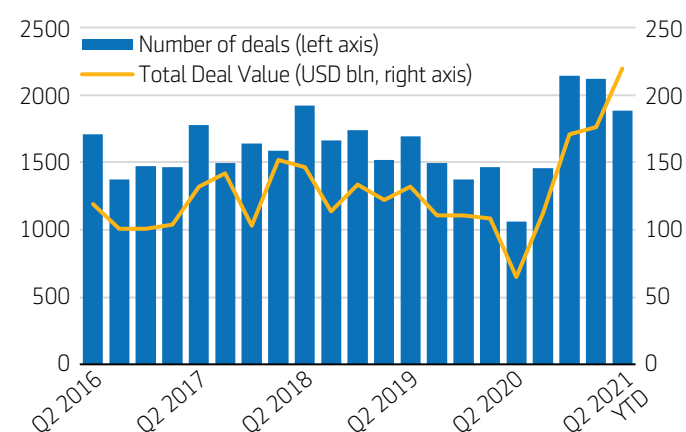
In our view, the pandemic will have structural effects on the wider economy and private markets. We believe most PE managers are well positioned to be at the forefront of these changes and hence able to benefit. First, the pandemic has led to an acceleration of the existing offline-to-online trend. Digital education, online shopping, virtual consultations in healthcare and working from home in service industries are examples of the further digitalization of the economy. The importance of technology in this matter is evident. Furthermore, the pandemic has exposed vulnerabilities in worldwide supply chains and highlighted the importance of adequate risk management. Finally, we expect PE managers to pay more attention to structural risks, such as climate risks, geopolitical risks, cybersecurity and – not surprising – pandemics.

Global M&A markets: beyond catching up

Low, uncertain valuations and halted sale processes led to reduced activity in the mergers & acquisitions at the start of the pandemic. However, deal activity has picked up markedly

after the summer of 2020 as illustrated in figure 1. Where at first renewed activity consisted of catching up on postponed deals, it is now clear global deal activity is at a substantially higher level due to various factors: improving economic forecasts, ongoing governmental support and sufficient capital availability, all leading to higher risk appetite. For PE managers the amount of dry powder (committed yet uninvested capital) is at a record high of US\$1.9 trillion leading to pressure to put the capital to work. Furthermore, the debt used to finance deals is cheap. We expect these factors to keep providing upward pressure for global M&A activity. Transaction prices have remained stable throughout 2020 and are even slightly increasing in 2021, mimicking the developments at the comparable public companies. The hunt for good assets continues to be competitive.

Figure 1: Global M&A activity (as of Q2 2021)



Source: Preqin, Aegon Asset Management

With respect to the fundraising of new PE funds, activity is at an all-time high as well. Compared to many other asset classes PE is currently generating strong risk-adjusted returns making it an attractive category bringing fresh capital into the industry. Additionally, PE managers are expanding into more fund strategies and new niches within the private markets. For example, continuation funds (with investments from expiring funds that managers do not want to sell yet) and long hold funds (holding companies for 8-15 years) are on the rise. Furthermore, secondary funds raised three times more capital last year compared to 2019. These funds, that buy stakes in other funds (often at a discount), are popular through investors seeking immediate exposure to PE. Also, specialized fund strategies are trendy, such as climate funds or impact investing. Finally, private debt funds financing the debt side of the same transactions, are climbing.

Private equity's ESG efforts

The way PE is structured provides good opportunities to deploy ESG initiatives at portfolio companies. PE managers can exploit their often-majority control for a good cause. The trend in the industry is clearly towards integrating ESG factors in the whole investment process (from acquisition to exit), improved ESG reporting and more adherence to the Principles of Responsible Investing (PRI), an investor network supported by the United Nations. Currently, ESG is not a 'tick-box' exercise anymore, but often either a risk management tool or an investment tool to seek improved returns. Increasingly, investors believe ESG and performance go hand in hand, which may create pressure on fund managers to show the added value of ESG.

With the election of President Biden and increased pressure from investors, we expect a further convergence of ESG efforts of American funds towards the generally higher European standards. Increasingly, emphasis will be placed on making the economy more sustainable and digital, curbing climate impact and improving diversity and inclusion. PE funds anticipating these themes could therefore, be better positioned for higher future returns. However, investors should beware of funds pretending to be ESG-minded and demand complete and factual ESG reporting.

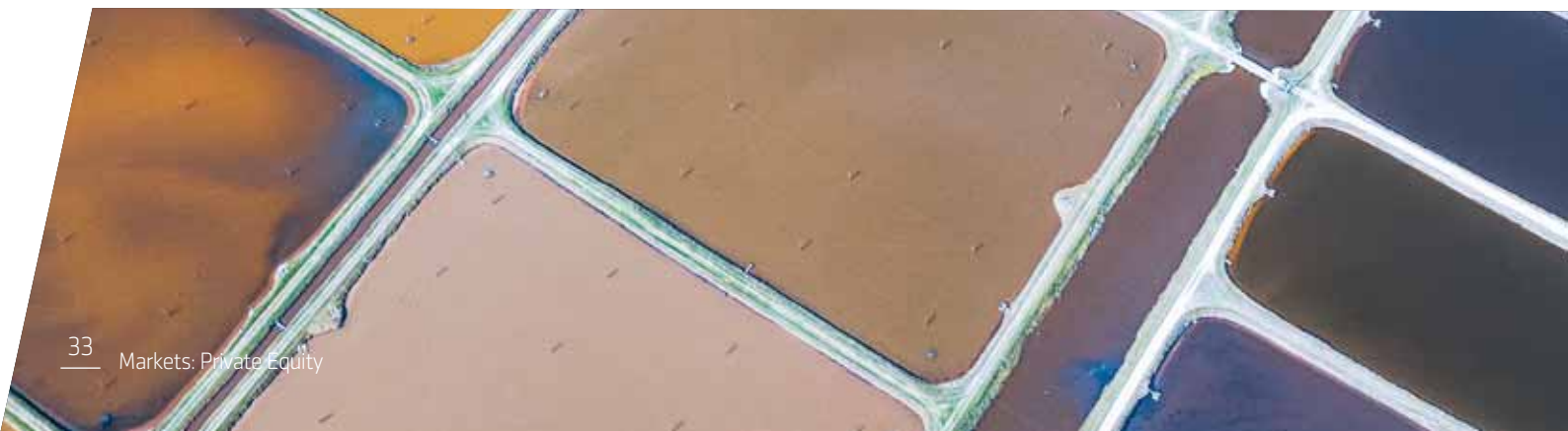
The future of private markets: selection is key

There are several trends in the PE industry to keep an eye on. First, the ongoing digitalization of the economy creates opportunities for venture capital funds, for example artificial intelligence and robotics. Technological advances will be integrated further in many parts of society leading to new sub-sectors, such as healthtech, fintech, biotech and edtech (educational tech). Secondly, the growing and aging population calls for investments in the health care and food space. Likewise, climate change and the use of precious raw materials call for action as well. In our view, PE will play a vital role in these trends and challenges ahead.

Looking ahead, 2021 is on pace to become the busiest year on record, both in terms of deal activity and fundraising. We do not expect the factors driving this to change materially in the coming years. First, we expect continued ample liquidity in the system pushing up valuation levels and transaction prices. Next, we expect the search for yield to continue with more capital entering private markets. This leads us to forecast lower returns for the asset class in the years ahead compared to the long-term average. With high amounts of dry powder chasing a limited number of opportunities, high transaction prices and cheap leverage, future upside potential is limited. We are mindful of the risks that arise from high valuations and debt levels as well as a possible sustained inflationary environment. Nevertheless, with the opportunity to collect a complexity and illiquidity premium, PE remains a viable alternative asset class.

The above mentioned trends may lead to wider dispersion between 'good and bad' managers, making selection of the 'right' manager key. Reasons for this include:

- It can become easier for less skilled managers to attract capital. Managers may also venture into uncharted territories (these are uncharted for a reason) such as the SPAC frenzy or highly specialized strategies. In the same way, there is an incentive for existing funds to raise ever-bigger funds making them move into a different company size segment where they have limited experience.
- High amounts of dry powder will lead to pressure to put capital to work, leading less disciplined managers to pay excessive transaction prices. In turn, this can lead to lower future returns.
- Managers mindful of structural risks (sustained high inflation, geopolitical risks, climate risks, cybersecurity) should be more likely to outperform in the long-term.
- As a full integration of ESG factors in the investment process becomes more and more the standard, one should beware of 'ESG greenwashers'. Proper ESG-due diligence is essential.



Commodities

In the past few years' commodity prices have experienced significant volatility as global growth expectations trended lower and geopolitical developments put trade relations under pressure. Volatility moved to exceptional levels in 2020, due to the spread of the coronavirus. Out of all asset classes, commodities were probably hit most severely due to the general collapse in global economic activity. But they also had the strongest rebound this year as economies started to reopen.

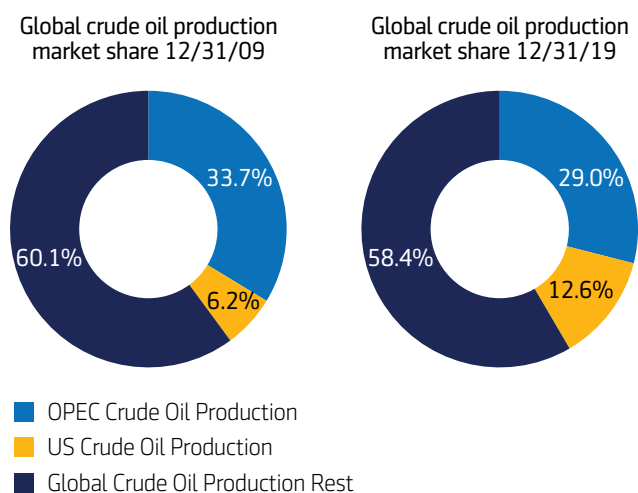
Crude oil recovery

The most important component of the commodity universe, crude oil, staged a strong recovery in 2021. OPEC+ continued its strong grip on oil markets in 2021, as they extended production cuts, while only gradually increasing production as demand started to come back during the economic reopening. They continued their discipline to balance the market. By the end of July 2021, the crude oil price was able to breach the \$70 a barrel level, which helped make it more attractive for other producers to start their production again. This has been evident in the number of active oil rigs across the US, which has been trending higher. Although increased production could dampen the potential price increases going forward.

Oil longer-term trends and perspective

During the last decade, the oil sector was mainly shaped by the rise of US shale oil production at the expense of OPEC market share. The market share of US crude oil production rose from 6.2% to 12.6% in the 2010s, while OPEC saw its market share drop by 4.7% (Figure 1).

Figure 1: Global market share crude oil production split between OPEC, US and other producers.



Source: Aegon Asset Management, International Energy Agency, Bloomberg, as of December 2019

The regional shift in market share of crude oil production has changed the geopolitical landscape significantly. The US has become energy independent, while for Saudi Arabia, Russia and other oil dependent countries across the Middle East and Latin America it has resulted in a constant pressure on income and government budgets.

US producers are flexible, and they will likely continue to act as marginal supplier and dampen any strong price upside, but they will also most assuredly reduce production rapidly when prices fall below US\$30-\$35 per barrel.

Oil also has to cope with the existing global megatrends. The world is transitioning to renewable energy sources, which should simultaneously lead to a gradual reduction in demand for oil in the coming decades. However, the International Energy Agency expects world oil demand will rise for at least the next 20 years, heading towards 125 million barrels per day in around 2050 if we continue on our current path. Of the almost 100 million barrels of oil currently consumed daily, more than 60% is used for transportation.

According to the Edison Electric Institute, battery-powered electric cars currently only have a 1.8% global market share. But the rising share of electric vehicles is the biggest contender to bend the long-term demand curve for oil downwards. We expect the shift from fossil to renewable sources of energy to be gradual for the following reasons. Firstly, the whole economic system must adapt to new technologies for producing renewable energy, which in turn needs to become economically competitive compared to fossil fuel energy. Secondly, infrastructure needs to be adjusted to support new sources of energy in all their facets. And finally, storage of renewable energy must be upgraded to align demand and supply. As renewable energy becomes more mainstream, we expect more standardized contracts going forward which could result in a more liquid futures market.

Commodity outlook

For the commodity market as a whole we expect prices to gradually increase over the coming years. Global economies are showing a strong rebound as they reopen, with demand exceeding supply over recent months. On top of the rebound in consumer demand, we expect many countries to boost their investments and infrastructure spending via various recovery plans and funds. On top of that, we expect a further slight depreciation of the dollar. Both these factors will likely give some ongoing upward pressure on commodity prices.

An aerial photograph showing a large-scale coastal defense structure. The structure consists of a concrete armor layer made of numerous interlocking concrete armor units (CAUs) that form a porous, armor layer. The armor units are arranged in a regular, grid-like pattern. The structure is situated in the ocean, with waves breaking against the armor layer. The water is a deep blue color. The structure is built on a concrete foundation, which is visible as a dark, solid line along the top edge of the armor layer. The overall scene is a high-angle, top-down view of the armor layer and the surrounding water.

Overview

Overview

In our outlook, we expect the world economy to continue to rebound from the hit of the Covid pandemic. Despite risks surrounding new variants of the coronavirus, we expect that effective vaccines and the reluctance to reimpose new lockdowns will allow the economic recovery to continue. This would imply that risky assets are supported from a macro-economic perspective.

We expect interest rates to rise marginally compared to the current implied rates. This in general leads to a low return expectations on sovereign bonds. Within sovereign markets, the Gilt markets stands out as its rates have more scope to rise. Bank of England is likely to be able to raise rates faster compared to the ECB.

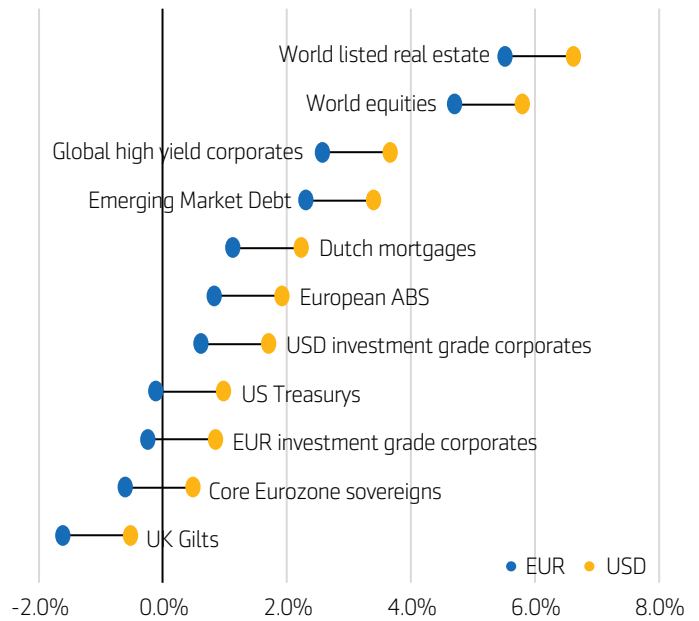
Credit asset classes are likely to experience a benign environment, where the rating drift is upwards and defaults low. This would result in a return, which is close to the current starting yield. Spreads are however tight and are likely to move marginally wider as central bank support is reduced. We do think that lower rated credits are set to outperform, also as fallen angels can partly return to the investment grade universe.

A spread pick-up is still available in alternative fixed income assets. Exposure to consumer related risk, should perform well. Unemployment rates will likely remain low, and accumulated savings offer a buffer for adversity.

Returns on equities are likely to be below historical averages as current valuations are elevated. However, equities still offer potential for decent earnings growth due to the economic rebound and due to the large share of high margin and growing technology companies in the index. Potential increases in corporate tax rates are likely to be a small drag on net earnings.

Interest rates are expected to remain low, partly due to central bank policy. Inflation adjusted, interest rates are even negative in most regions. Assets which are linked to nominal growth, like equities and real estate should benefit as negative real rates are accretive for equity holdings. Therefore equities and real estate remain attractive asset classes, also from a risk-adjusted perspective.

Figure 1: Return in both EUR and USD for major asset classes (As of Aug-21)



Source: Aegon Asset Management. ¹Projections provided by Aegon Asset Management. **Hypothetical example for illustrative purposes only.**

¹Return and volatility estimates are based on economic and market outlook, which combines quantitative and qualitative factors. Inputs are amongst others expected fiscal and monetary policy, economic growth, central bank policy, interest rates, spread, default expectations, recoveries, rating migrations, dividends, buybacks, earnings growth, multiple changes, interest rate differentials, basis spread, supply and demand factors and curve shapes. These estimates are inherently highly uncertain and should not be directly relied upon.

Abbreviations

Central banks and economic institutions

BIS	Bank of International Settlements
BOE	Bank of England
BOJ	Bank of Japan
ECB	European Central Bank
Fed	Federal Reserve
IMF	International Monetary Fund
NBER	National Bureau of Economic Research
OECD	Organisation for Economic Co-operation and Development
PBoC	People's Bank of China

Countries and Regions

AU	Australia
BE	Belgium
BR	Brazil
CN	Peoples Republic of China
DE	Germany
EM	Emerging markets
EMU	European Monetary Union
ES	Spain
EU	European Union
FI	Finland
FR	France
GR	Greece
HK	Hong Kong
IE	Ireland
IN	India
IT	Italy
JP	Japan
KR	South-Korea
LU	Luxembourg
LV	Latvia
MX	Mexico
NL	Netherlands
RU	Russia
TW	Taiwan
UK	United Kingdom
US	United States
ZA	South Korea

Eurozone countries include Austria (1999), Belgium (1999), Cyprus (2008), Estonia (2011), Finland (1999), France (1999), Germany (1999), Greece (2001), Ireland (1999), Italy (1999), Latvia (2014), Lithuania (2015), Luxembourg (1999), Malta (2008), Netherlands (1999), Portugal (1999), Slovakia (2009), Slovenia (2007), Spain (1999)

OECD countries include Australia, Austria, Belgium, Canada, Chile, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea, Latvia, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, United Kingdom, United States

BRIC countries include Brazil, Russia, India and China

G7 countries include Canada, France, Germany, Italy, Japan, United Kingdom and United States

Currencies

CNY	Renminbi (onshore)
CNH	Renminbi (offshore)
EUR	euro
GBP	pound sterling
JPY	Japanese yen
USD	United States dollar

Miscellaneous

ABS	Asset Backed Securities
ABSPP	Asset Backed Securities Purchase Programme
ACWI	All Country World Index
CSPP	Corporate Sector Purchase Programme
EDIS	European Deposit Insurance Scheme
EMD	Emerging Market Debt
ESG	Environmental Social and Governance
FTE	Full-time employees
FX	Foreign exchange
GDP	Gross Domestic Product
J-REITs	Japanese Real Estate Investment Trusts
NextGenEU	Next Generation EU Plan (Recovery plan)
NFP	Non-Farm Payrolls
NSA	Non-Seasonally Adjusted
OPEC	Organization of the Petroleum Exporting Countries
PEPP	Pandemic Emergency Purchase Programme
REITs	Real Estate Investment Trusts
S&P	Standard & Poor's

Disclaimers

This material is provided by Aegon Asset Management (Aegon AM) as general information and is intended exclusively for institutional and wholesale investors, as well as professional clients (as defined by local laws and regulation) and other Aegon AM stakeholders.

This document is for informational purposes only in connection with the marketing and advertising of products and services, and is not investment research, advice or a recommendation. It shall not constitute an offer to sell or the solicitation to buy any investment nor shall any offer of products or services be made to any person in any jurisdiction where unlawful or unauthorized. Any opinions, estimates, or forecasts expressed are the current views of the author(s) at the time of publication and are subject to change without notice. The research taken into account in this document may or may not have been used for or be consistent with all Aegon AM investment strategies. References to securities, asset classes and financial markets are included for illustrative purposes only and should not be relied upon to assist or inform the making of any investment decisions. It has not been prepared in accordance with any legal requirements designed to promote the independence of investment research and may have been acted upon by Aegon AM and Aegon AM staff for their own purposes.

The information contained in this material does not take into account any investor's investment objectives, particular needs, or financial situation. It should not be considered a comprehensive statement on any matter and should not be relied upon as such. Nothing in this material constitutes investment, legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate to any particular investor. Reliance upon information in this material is at the sole discretion of the recipient. Investors should consult their investment professional prior to making an investment decision. Aegon AM is under no obligation, expressed or implied, to update the information contained herein. Neither Aegon AM nor any of its affiliated entities are undertaking to provide impartial investment advice or give advice in a fiduciary capacity for purposes of any applicable US federal or state law or regulation. By receiving this communication, you agree with the intended purpose described above.

Hypothetical forecasts are for illustrative purposes only. No representation is being made that any account, portfolio, or strategy will or is likely to achieve profits, losses or results similar to those shown. Hypothetical and forecasted performance results have several inherent limitations. There are frequently sharp differences between hypothetical results and actual results. In addition, there are numerous factors

related to the markets in general or the implementation of any specific investment strategy which cannot be fully accounted for in the when estimating or forecasting results, yet all of which can adversely affect actual results. In addition, references to estimated or future results should not be construed as an estimate or promise of results that a client portfolio may achieve.

Expected return is an estimate of what investments may earn on average over the time period indicated and is not a prediction or projection of future results. Actual returns may be higher or lower than those shown and may vary substantially over shorter time periods. Different time periods will have different results and there is no guarantee that the results shown will be realized.

Statements concerning financial market trends or portfolio strategies are based on current market conditions, which will fluctuate. There is no guarantee that the investment strategies will work under all market conditions or are suitable for all or any investors. Each investor should evaluate their ability to invest for the long term, especially during periods of downturn in the market. Outlook and strategies are subject to change without notice.

All investments contain risk and may lose value. Investing in the bond market is subject to risks including market, interest rate, issuer, credit, inflation and liquidity risk. The value of most bonds and bond strategies are impacted by changes in interest rates. Bonds and bond strategies with longer durations tend to be more sensitive and volatile than those with shorter durations; bond prices generally fall as interest rates rise, and the current low interest rate environment increases this risk. Bond investments may be worth more or less than the original cost when redeemed. Investments in high yield bonds may be subject to greater volatility than fixed income alternatives, including loss of principal and interest, as a result of the higher likelihood of default. Value of these securities may also decline when interest rates increase. Sovereign securities are generally backed by the full faith and credit of the issuing government. Obligations of US government agencies and authorities are backed by varying degrees but are not generally backed by the full faith of the US government. Portfolios that invest in government guaranteed securities are not guaranteed and may fluctuate in value. Investing in foreign-denominated and/or domiciled securities may involve heightened risk due to currency fluctuations, economic and political risks, which may be enhanced in emerging markets. Currency rates may fluctuate significantly over shorter time periods and may reduce the returns of a portfolio significantly. Responsible investing is qualitative and subjective by nature, and there is

no guarantee that the criteria utilized, or judgment exercised, by any company of Aegon Asset Management will reflect the beliefs or values of any one particular investor. Commodities contain heightened risk including market, political, regulatory and natural conditions and may not be suitable for all investors. Information regarding responsible practices is obtained through voluntary or third-party reporting, which may not be accurate or complete, and Aegon Asset Management is dependent on such information to evaluate a company's commitment to, or implementation of, responsible practices. Responsible investing norms differ by region. There is no assurance that the responsible investing strategy and techniques employed will be successful. Diversification does not ensure a profit nor guarantee against loss.

This document contains "forward-looking statements" which are based on Aegon AM's beliefs, as well as on a number of assumptions concerning future events, based on information currently available. These statements involve certain risks, uncertainties and assumptions which are difficult to predict. Consequently, such statements cannot be guarantees of future performance, and actual outcomes and returns may differ materially from statements set forth herein. Results for certain charts and graphs are included for illustrative purposes only and should not be relied upon to assist or inform the making of any investment decisions.

The following Aegon affiliates are collectively referred to herein as Aegon Asset Management: Aegon USA Investment Management, LLC (Aegon AM US), Aegon USA Realty Advisors, LLC (Aegon RA), Aegon Asset Management UK plc (Aegon AM UK), and Aegon Investment Management B.V. (Aegon AM NL). Each of these Aegon Asset Management entities is a wholly owned subsidiary of Aegon N.V. In addition, the following wholly or partially owned affiliates may also conduct certain business activities under the Aegon Asset Management brand: Aegon Asset Management (Asia) Limited (Aegon AM Asia).

Aegon AM UK is authorised and regulated by the Financial Conduct Authority (FRN: 144267) and is additionally a registered investment adviser with the United States (US) Securities and Exchange Commission (SEC). Aegon AM US and Aegon RA are both US SEC registered investment advisers. Aegon AM US is also registered as a Commodity Trading Advisor (CTA) with the Commodity Futures Trading Commission (CFTC) and is a member of the National Futures Association (NFA). Aegon AM NL is registered with the Netherlands Authority for the Financial Markets as a licensed fund management company and on the basis of its fund management license is also authorized to provide individual portfolio management and advisory services in

certain jurisdictions. Aegon AM NL has also entered into a participating affiliate arrangement with Aegon AM US. Aegon AM Asia is regulated by the Securities and Futures Commission of Hong Kong (CE No. AVR688) to carry out regulated activities in Dealing in Securities (Type 1) and Advising on Securities (Type 4).

©2021 Aegon Asset Management or its affiliates. All rights reserved.

Adtrax code: 3794904.1.
Exp Date: 30 September 2022

