*The brutal terrorist attacks conducted by Hamas against Israel have rekindled geopolitical risks that had been long forgotten in the current economic environment. Our allocation strategy has therefore factored in an additional risk premium in our asset class valuations, as we believe that market players have so far under-estimated the risk.*

***David TAIEB**, Member of the Board – Chief Investment Officer.*

# SUMMARY

## Growth

**The IMF has revised down its 2023 and 2024 growth forecasts for China and the Eurozone**. Global economic activity slowed in September, with the global composite PMI declining from 50.6 to 50.5. Furthermore, **manufacturing orders have decelerated** for the first time in eight months, while the services sector PMI has fallen to it its lowest level since February.

## Inflation

In France, **inflation is expected to continue easing in the months to come**, while the American Inflation Reduction Act (IRA) is beginning to pay off in the US. In the Eurozone, September inflation readings retreated to 4.3% year-over-year, falling to a **two-year low**. Nevertheless, rising energy prices may hamper this disinflation.

## Monetary policy

Unlike Brazil, **monetary policy in developed countries has remained prudent** in response to the rising price of oil and the geopolitical situation in the Middle East. The Fed may even raise its rates further over the next couple of months. However, current forecasts suggest that **key rates will remain close to their peak** and that the first interest rate cuts will occur in mid-2024.

## SUSTAINABLE

# European Taxonomy Reports undergo a first assessment

Astrid LIEDES,
*Analyst - Responsible Finance.*

**The European taxonomy** refers to the classification of economic activities that have a favourable impact on the environment. This classification establishes a common language around sustainable activities within the EU, both for companies and investors. For each activity, the latter must report the percentage of turnover, OPEX (expenses associated with operating a product, company, or system) and CAPEX (capital expenditure) that is aligned with the taxonomy.

**The first taxonomy reports by non-financial companies have now been published for FY 2022**. ESMA (Europe's Securities and Market Authority) conducted a review of these publications[1], covering a sample of 54 companies in the 22 EU member states. **The focus of this exercise is to evaluate the quality of the disclosures provided by the issuers**, based on the new requirements.

Below are the key findings:

- 96% of the sample effectively disclosed the mandatory data, and 70% used the required format or template.
- 40% of the companies assessed failed to offer any explanations on the evolution of technical screening criteria, DNSH[2] criteria, and minimal safeguards[3]. Yet this is one of the three stages that will help confirm whether an activity is effectively aligned with the taxonomy.
- The turnover alignment averaged 17.3%, the average OpEx alignment was 17.5%, while the average CapEx alignment was 28.1%

# SUSTAINABLE (continued)

## European Taxonomy Reports undergo a first assessment

- 30% of the sample reported 0 on at least 1 of the 3 KPIs (turnover, OpEx and CapEx): 26% for OpEx, 24% for turnover and 15% for CapEx.
- Limitations were noted regarding the methodologies adopted to avoid double-counting or consistency issues with financial disclosures.
- The review observed good practices on the level of transparency regarding compliance tests and on the links provided with sustainability policies.

**ESMA's report concludes with a mixed assessment**. Consequently, the European platform on sustainable finance and the European commission launched a "EU taxonomy stakeholder request mechanism", the aim of which is to review the existing taxonomy and examine the addition of new activities.

[1] *https://www.esma.europa.eu/sites/default/files/2023-10/ESMA32-992851010-1098_-_Summary_of_findings_Results_of_a_fact-finding_exercise_on_corporate_reporting_practices_under_the_Taxonomy_Regulation.pdf*

[2] *DNSH (Do Not Significantly Harm) refers to the controls made to ensure that the activity does not cause collateral damage for the other environmental goals of the taxonomy.*

[3] *Minimal safeguards refer to the controls made to ensure that the activity complies with minimal social standards.*

## TREND

# Has the ECB finished with interest rate hikes?

On October 26th this year, the European Central Bank (ECB) kept its key rates unchanged after a sequence of ten consecutive hikes. The **deposit rate** still stands at 4%, **its highest level since 1999**. ECB President, Christine Lagarde, has already noted that the "monetary policy continues to be transmitted forcefully into the economy, which is directly affected". However, markets should not pin their hopes on a rate cut in the near future, even if the weak economic activity is raising concerns that GDP may contract. She warned that "even having a discussion on a cut is totally premature", without excluding the possibility of further hikes depending on the state of the economy.

According to Christine Lagarde, interest rates are now at levels that will bring "a substantial contribution" to lowering inflation; she also adds that to ensure prices fall back further, these levels should be held "for a sufficiently long period of time". The duration of this rate stability will be the main topic on the agenda of the ECB's next meeting on December 14th.

The ECB's most recent economic scenario forecasts inflation at 5.6% (year-over-year) in 2023, 3.2% in 2024 and 2.1% in 2025, very close to its 2% target. The central bank's sequence of interest rate hikes is proving effective, as inflation has been ebbing for several months now and should continue to recede. We therefore believe that the end of monetary tightening is in sight and that **the ECB's rate hike cycle is drawing to a close.**

# TREND (continued)

## Has the ECB finished with interest rate hikes?

After the **fastest rate increase in history**, lending conditions have tightened. The higher cost of credit has had major implications, notably for the housing market. As a result, with inflation easing considerably in the Eurozone in coming months, we expect the ECB to make its **first rate cut** in June 2024, if the central bank's 2% inflation target has been reached by then.

Regarding our investment scenario, we feel that the **risk of an imminent global recession is rather low**, considering:

- the resilience of the labour market,
- excess household savings,
- resilient corporate profitability and the absence of a major macro-financial imbalance,
- the lower deterioration of lending conditions, with the end of central bank rate hike cycles,
- and the recovery in China.

# CONVICTIONS

**Every month, our Allocation Committee brings together our entire investment team to determine our asset allocation strategies, which are then implemented in the daily management of our funds.**

## EQUITIES

### EUROZONE

We have switched from over to under-exposed, having trimmed our exposure to Eurozone equities by 5%, although European equity markets remain attractively valued.

### UNITED STATES

Equity markets have posted positive returns overall since the beginning of the year, with the US pulling off the strongest regional performance. At regional level, US equities could well outperform other markets. Our view remains neutral on the asset class.

### EMERGING COUNTRIES

Several emerging equity markets are trading at high discounts, with some valuations falling to 20-year lows. We are overexposed to the Chinese, Indian and Brazilian equity markets.

## FIXED INCOME

### SOVEREIGN BONDS

Bond yields are now back to attractive levels over the mid-term; a modest retreat from current levels could boost the performance delivered by the asset class. We believe that sovereign yields are unlikely to increase further now that the central bank interest rate hiking cycle is drawing to an end.

### CREDIT

The asset class is a winner in any scenario. If economic growth is stronger than planned in 2024, credit risk premiums will decline. In the event of a more unfavourable scenario, IG credit seems more robust than High Yield Credit. This would enable yields on credit markets to return to attractive levels.

Change in view versus previous month.

Investment team's asset class views.

# CONVICTIONS (continued)

## EURO/USD

The Euro offers re-rating potential relative to the US dollar. We believe the improved current account balance in the Eurozone to be a positive factor for the single currency in coming months.

## COMMODITIES

For the time being, the conflict in the Middle East has not had a fundamental impact on oil prices, as Iran is not directly involved in the conflict. The price of Brent crude oil, currently within a range of $80 to 90/bbl., should remain relatively stable. Though we believe this hypothesis to be unlikely, a direct intervention from Iran in the conflict could trigger a brutal and durable spike in oil prices.

Change in view versus previous month.

Investment team's asset class views.

Sienna
GESTION



Sienna Gestion - French *société anonyme* governed by an executive board and a supervisory board with a capital of € 9,824,748 - RCS : 320 921 828 Paris – AMF Registration Number : GP 97020 on March 13th, 1997– EU VAT number : FR 47 320 921 828 - APE code : 6430Z - Headquarters : 18 rue de Courcelles 75008 Paris France.

WRITTEN ON NOVEMBER 2ND 2023