Declining market volatility benefited our allocations in November. Today's macroeconomic environment is conducive to narrowing risk premiums; inflation continues to ebb - without a strong recession; central banks are undoubtedly shifting toward a more structural pause in their monetary policy, and geopolitical risk remains contained so far. We are staying the course as we head into 2024.

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

SUMMARY

Growth

After a quiet summer, global economic activity failed to pick up at the beginning of autumn, with **the global composite PMI dropping half a point in October**. Germany has entered a recession, posting a negative growth of -0.3% year-on-year (yoy). The situation is a little brighter in France, but the country's GDP nevertheless contracted by 0.1% in Q3.

Inflation

In the Eurozone, inflation has continued to retreat, down from 4.3% in September to 2.9% in October yoy. One year ago, it still stood at 10.6%. With inflation at 4.5% yoy in October, **France ranks in 17th place within the EU**. Worldwide, the disinflation process is gently running its course.

Monetary policy

The Fed has held its **key rates steady at 5.25% and 5.5%**. Meanwhile, in Europe, the end of the ECB's rate hike cycle appears to be a "done deal". Economists are now torn between interest r**ate stability until the middle of next year, and a cut before July**.

SUSTAINABLE

COP28: the ‘Global Stocktake’ since the Paris Agreement

Astrid LIEDES,
Analyst - Responsible Finance.

The COP28 climate action summit opened on November 30th in Dubai. Eight years after the Paris Agreement was signed, these climate talks will involve a global “stocktake”, **the first worldwide assessment of progress made toward mitigating global warming**. While the COP21’s ambitions were to limit global warming to +2°C or even 1.5°C by 2100 compared to pre-industrial levels, two figures from the UN’s latest report[1] clearly put these objectives into perspective:

- Current temperatures are up +1.2% compared to pre-industrial times, with a **likely breach of the 1.5°C target within the next 5 years**.

- Climate pledges made by governments today would only actually limit the temperature rise to +2.9°C. **National objectives will therefore require adjustments if we are to achieve alignment with the shared ambition of +1.5°C**.

[1] https://www.unep.org/fr/resources/rapport-2023-sur-lecart-entre-les-besoins-et-les-perspectives-en-matiere-de-reduction-des

SUSTAINABLE (continued)

COP28: the 'Global Stocktake' since the Paris Agreement

The objective of this COP is to make a full global assessment – ensuring this is approved by member countries, and even more importantly, **to provide a political response that would help correct the current climate pathway**.

Issues addressed in Dubai shall include:

- **Phasing out the production of fossil fuels** (only coal is concerned today)
- **Funding arrangements for vulnerable developing countries**, notably regarding the loss and damage fund. The COP28 is expected to provide details on terms and conditions and stakeholders.
- **A pledge to triple renewable energy capacity** and improve energy efficiency within the next 7 years.

This summit will be instrumental in achieving our objectives for 2030; yet global cooperation on issues of climate change is both dwindling and increasingly complex.

TREND

The surprising resilience of the US economy compared to the Eurozone

Against all odds, **US GDP growth rose to an annualised 5.2% quarter-on-quarter (qoq) in Q3 2023**, largely beating consensus estimates. This is **the fastest pace of growth recorded by the US economy since Q4 2021,** and a far cry from the recession that had been anticipated by a number of economists and investment managers.

Growth has been supported by **Biden's expansionary plans** and by **the large contribution from consumer spending** (+4% qoq, annualised). During the quarter, US household spending has increased in several areas: energy, healthcare, finance, insurance, IT, and tourism. Investment in real estate has rebounded. GDP growth was also driven by inventory dynamics, public spending, and the first positive contribution from housing investment since Q1 2021.

In contrast, **the Eurozone recorded negative GDP growth in Q3 at -0.1%** (year-on-year). A more detailed look shows that the recession in Germany, where growth is down -0.3% year-on-year, continues to weigh on the region. In France, GDP also declined 0.1% during the quarter. Activity has been more or less at a standstill in the Eurozone over the past four quarters, and the outlook remains weak due to the stricter lending conditions, higher funding costs for companies, the collapse of mortgages, reduced support to households, the slowdown on the job market and persistently high inflation. According to the European commission's forecasts, economic growth in the Eurozone should be slower than planned this year. However, the area should avoid falling into technical recession and **rebound the following year**.

TREND (continued)

The surprising resilience of the US economy compared to the Eurozone

Rising public and private investments in Europe should continue to support activity. **Financing conditions have now peaked at their tightest**, with the ECB's policy rate ending the cycle at 4%. Rather substantial easing can be expected, down to 3.5% in H1 2024 and 3% at end 2024, due to the combined effect of slower activity and ebbing inflation.

Disinflation is gradually taking its course throughout the world. On this front, October was a particularly positive month, notably in Europe. Headline inflation should retreat to around 2.5% both in the US and in the Eurozone in H1 2024, which would be low enough t**o enable central banks to start gradually moving their key rates lower**.

Although still fragile, the newsflow on Chinese economic activity is positive. Noticeably, Chinese tourists are seen to be returning to Europe.

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

Several European equity markets recovered in November, notably thanks to retreating bond yields. Our view on European equities is neutral, unchanged from last month.

UNITED STATES

Equity indices enjoyed a third consecutive week of positive returns. For the S&P500 and Dow Jones indices, this has been the longest sequence of weekly gains since early July. For the Nasdaq, this has been the longest weekly rise since June. Our view remains neutral on the asset class.

EMERGING COUNTRIES

Emerging equities have enjoyed a broad rise, driven notably by central bank policy rate cuts. We have maintained our overexposure to the Chinese, Indian and Brazilian equity markets.

FIXED INCOME

SOVEREIGN BONDS

The economic environment remains uncertain. To be on the safe side, investors continue to favour lower risk investments - such as sovereign and corporate bonds. Our view remains neutral on the asset class.

CREDIT

We recommend caution, despite the resilience of spreads. We therefore remain selective and neutral on the asset class.

Change in view versus previous month.

Investment team's asset class views.

CONVICTIONS (continued)

EURO/USD

+ In November, the dollar posted its largest monthly drop for a year, falling to its lowest since mid-August. As the economic environment is not favourable to the dollar, we are overexposed to this asset class.

COMMODITIES

+ Brent prices have temporarily fallen below $80 per barrel for the first time since July. Our view remains neutral on oil. Meanwhile, the price of gold has hit an all-time high of 2,135.39 dollars per ounce (on December 4th). We are therefore overexposed to gold.

Change in view versus previous month.

+ = – Investment team's asset class views.

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