The "Goldilocks" scenario has continued to drive markets in these first weeks of 2024. The economy is still showing signs of resilience, while inflation gradually eases. Investors are now focusing on the next central bank meetings, which will be instrumental in sustaining the trend.*

** a moderate and steady economy*

David TAIEB, *Chief Investment Officer - Listed Assets*

SUMMARY

Growth

After the world's GDP **grew 2.6% in 2023, the World Bank is now expecting growth to slow to +2.4% in 2024.** Excluding 2020, this would be the weakest pace of global economic growth recorded since the financial crisis of 2008. In the Eurozone, the consensus expectation is for the economy **to grow +0.6% in 2024, compared to +1.3% in the United States and 4.5% in China.**

Inflation

Disinflation began a few months ago and **should intensify in 2024.** While inflation increased a little in the Eurozone and in the United States at the end of the year, it generally shrank in 2023. In 2024, inflation **in the Eurozone should retreat to 2.3%, down from 5.4% a year ago, according to the consensus.**

Monetary policy

Central banks seem to have reached the end of their rate hiking cycles, spelling the end of tightening lending conditions. However, neither the Fed nor the ECB are expected to lower their key rates in the short run. **We forecast a first cut in June** to support a 'soft landing' for the economy.

SUSTAINABLE

2024, a milestone year for socially responsible investment

Jean-Marie PEAN,
Director - Responsible Finance.

2024 will mark a milestone in the development of responsible investment, with several measures implemented at European and French level. Below is an overview of these new developments :

CSRD (Corporate Sustainability Reporting Directive)

This directive aims to improve the transparency of corporate reporting on environmental and social issues. Companies will be required to disclose detailed information on their ESG performances, which will equip investors with more reliable data for their impact assessments.

SFDR (Sustainable Finance Disclosure Regulation)

Effective since early 2023, the SFDR imposes comprehensive sustainability disclosure requirements from asset managers and financial advisors on their financial products. Despite its recent introduction, amendments are already planned after the consultation at the end of 2023. These could lead to the creation of new categories, more closely aligned with the concept of a Label.

SRI Label

The French SRI label, created in 2016, has recently published a 3rd version of its technical specifications. Requirements are now stricter, and the label imposes that candidates exclude a number of activities (tobacco, controversial weapons, thermal coal, fossil energies, etc.) from their funds. The selectivity ratio was also raised from 20% to 30%. Finally, candidates are required to analyse the climate strategies of underlying issuers.

SUSTAINABLE (continued)

2024, a milestone year for socially responsible investment

The ANI Law (national inter-professional agreement on 'value sharing')
The bill on value-sharing aims to simplify and facilitate the implementation of value sharing mechanisms and to encourage employee stock ownership. Fund managers are required to offer at least two funds that consider non-financial criteria in their PEE and PER-eligible securities accounts.

Loi industrie verte (French law on green industry)
This law aims to accelerate the country's re-industrialisation and make France a green industry champion. It should enable to scale up private funding to support the transition. A new savings product targeting under-21s was also created: "the future & climate savings plan". Meanwhile, life assurance and PER products are expected to support the funding of decarbonisation strategies in small and mid-sized companies.

These initiatives will play a vital role in 2024, reshaping responsible investment and fostering the transition to a more sustainable economy.

TREND

At a crossroads between past hardships and a brighter future

The financial economic environment remained volatile in 2023 due to continued fighting in Ukraine and a tense energy market at the beginning of the year. In the second quarter, the financial system was rocked by the collapse of several regional US banks and the difficulties experienced by Credit Suisse in Europe. **The aggressive series of interest rate hikes led by central banks also caused some turmoil across capital markets.** Geopolitical concerns, notably the conflict in the Middle East, then put markets under additional strain. Despite the uncertain environment, stock markets proved resilient, particularly at the end of the year, as investors factored in a fast decline in inflation and a brighter economic outlook.

Thanks to the November rally, all **equity indices closed 2023 in positive territory.** The CAC 40 ended the year up +16.5%, while the Euro Stoxx 50 index gained +17.4%. The Dow Jones and Nikkei 225 rose by +13.4% and +28.2% respectively. The only market to post negative annual returns was China, down -11%.

Turning to 2024, we about to enter the 'grand finale' of this unique inflation cycle. Over the next few months, inflation should revert to levels close to central bank targets, allowing the latter to make incremental rate cuts. **In light of this, we do not expect a global recession, but a gradual improvement in the growth outlook.**

TREND (continued)

At a crossroads between past hardships and a brighter future

In the Eurozone, consumer demand should remain strong. Lending and banking conditions are expected to improve for households and companies alike, and the latter stand to benefit as the industrial cycle recovers. **In the United States**, growth shall remain resilient, supported by normalised inflation, lower key interest rates, and improved corporate earnings. **Emerging countries,** on the other hand, will continue to benefit from ebbing inflation, the recovery of the global industrial cycle, a weaker dollar, and less restrictive monetary policies.

We believe that the main asset classes offer upside potential over the coming year. Risk-free money market investments will deliver positive returns and bonds will offer higher yields over the mid to long term. **We therefore prefer corporate debt for its higher yield.** We remain upbeat on equity markets, which should continue to rise, albeit at a more moderate pace.

We shall keep a close eye on the Q4 2023 earnings season due to begin in February. These publications will provide us **with valuable information on sales and earnings trends, and on the outlook for the remainder of the year.**

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 believe that valuations will become less attractive following the recent market rally in Europe. The upside potential will depend on Q4 2023 corporate earnings and guidance for 2024. We therefore remain prudent on European equities.

UNITED STATES

The high valuations observed in the US relative to other equity markets remain unfavourable. However, earnings growth forecasts are stronger here than in Europe. Real rates in the US are continuing to ease, providing durable support for equity markets. We are slightly overweight US equities.

EMERGING COUNTRIES

The Brazilian market performed well, while valuations in the Indian market generated some concern over the potential for any future upside. Furthermore, we have maintained our exposure to China following the government announcements. Generally, we believe that emerging markets remain attractive in the long run, but we shall be particularly selective in the first part of the year.

FIXED INCOME

SOVEREIGN BONDS

We have kept our positive view on European and American bonds. Furthermore, we prefer emerging bonds in local currencies ahead of the end of the tightening cycle in the US, which will certainly act as a catalyst for these markets.

CREDIT

Investment Grade (IG) credit performed well in recent months as spreads contracted. We took some profits as we shifted back to neutral on these levels of monetary tightening. Furthermore, we remain neutral on High-Yield (HY) credit in Europe and in the US following the segment's recent outperformance.

Change in view versus previous month.

Investment team's asset class views.

CONVICTIONS (continued)

EURO/USD

Despite the euro's recent correction and the rebound of the dollar, we believe that the European currency still offers rerating potential over the US dollar. We have a few concerns over the upcoming US presidential election and the elections in Europe, but we expect the euro to rise against the dollar over the mid and long term.

COMMODITIES

Gold prices remained resilient despite higher long-term rates and a rising dollar. Disinflation could also be a favourable factor. We have kept our overexposure to gold but remain neutral on oil as we expect Brent crude to revert to $80/bbl half-way through the year.

Change in view versus previous month.

Investment team's asset class views.

Sienna
INVESTMENT MANAGERS

SIENNA GESTION - Member of the SIENNA INVESTMENT MANAGERS group - 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.

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