MARCH 2024

Sienna
INVESTMENT MANAGERS

NEWSLETTER #17

Capital markets have continued to rally, *supported by a healthy global economy and robust corporate earnings.*
Nevertheless, ***yields have begun to rise again and setbacks in commercial real estate are causing the cost of risk to increase,*** *a rise that investors have not yet factored in. We believe that the Fed's meeting on March 19th will generate some volatility and are adjusting our tactical allocations towards a more prudent stance.*

David TAIEB, *Chief Investment Officer - Listed Assets*

SUMMARY

Growth

From a global perspective, the year got off to a strong start as t**he Global Composite PMI rose from 51 in December to 51,8 in January**, its highest level since June 2023. In Europe, however, the PMI index only came **in at 47,9** (+0,3 point over the month) as the German and French economy are stagnating. In the United States, the composite PMI index rose to 52,5, up 1 point from the previous month.

Inflation

Disinflation is starting to run out of steam. With consumer prices up 3,1 % in January in the US, American inflation failed to drop below the 3 % threshold as hoped. In the Eurozone, according to Eurostat, inflation stood at 2,8 % in January, down from 2,9 % in December.

Monetary policy

The ECB left its key rates unchanged, and the ECB Chair indicated that rates would not be lowered until April. In the US, the Fed held its key rates for the fourth meeting in a row and signalled it did not intend to ease its monetary policy in the short-term.

SUSTAINABLE

Jean-Marie PEAN,
Director - Responsible Finance.

The SFDR consultation delivers its first results

At the end of 2023, the European Commission launched a consultation on the future of the Sustainable Finance Disclosure Regulation (SFDR). As a reminder, the main goal of SFDR is to improve ESG disclosure on financial products, by offering a systematic reporting framework. The first results of this consultation have now been made public.

The feedback shows a consensus on the need to categorise financial products at European level, based on their contribution to sustainability. However, existing categories must be reviewed (article 6, 8 and 9).

The results of the consultation are encouraging as a consensus was reached on the three new proposed categories :

- **Sustainability solution providers :**
  Companies offering products or services designed to address major environmental or social challenges (wind turbine manufacturers, renewable energy distributors, social housing developers etc...).

SUSTAINABLE (continued)

The SFDR consultation delivers its first results

- **Transition**
  Companies operating activities aligned with the European taxonomy.

- **Best ESG practices:**
  Companies implementing the best policies to address environmental, social and governance challenges.

The final category proposed during the consultation - the "exclusion" category - did not, however, receive the same backing. The aim was to create a category for companies generating a significant negative impact for the planet and the population.

Although these efforts mark a clear step forward, the road ahead is still long for sustainable finance in Europe. The upcoming European elections could influence future decisions, and debates around the precise interpretation of these categories will no doubt continue to resurface.

TREND

How would the re-election of Donald Trump impact the market?

Less than 8 months away from the US presidential election, in a head-to-head match-up between Donald Trump and Joe Biden, the latest polls give the former President a lead. A popularity bolstered by his recent winning streak in the Republican primaries, which prompted all other candidates to drop out of the presidential race, including his last major rival, Nikki Haley.

She exited her campaign after losing 14 out of 15 States during Super Tuesday, on March 5th

These elections are a pivotal period for capital markets. **Historically, the average return of the S&P500 during election years is aligned with the historic average.** The start of the year tends to be bearish; markets then rebound in the summer and consolidate in September and October before a post-election rally - whatever the results.

The likely initial reaction would be for cyclical non-US stocks to under-perform defensive stocks, and for Value* stocks to outperform. If Donald Trump wins the election, in view of his political agenda, small caps, US consumer goods companies, and stocks poised to benefit from a rising US dollar should do better than the market.

**Undervalued securities trading at a lower price than their fair value.*

TREND (continued)

How would the re-election of Donald Trump impact the market?

At sector level, historically, utilities, materials and energy have performed well in years preceding elections, unlike technology stocks. If Donald Trump moves back to the White House, customs duties would be a clear headwind for non-US stocks, notably for European and Chinese companies.

The clean energy and electricity sectors could also suffer considering the "non-climate" political angle of a second Trump mandate. **Consumer credit financing residential solar power and electric vehicles appears to be most at risk.**

Lower taxes to support consumer spending, and other additional reductions, will fuel demand and allow for robust growth in households' disposable incomes. Higher public expenditure, combined with resilient growth, implies that bond yields will remain higher for longer.

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

After a challenging end to the year, economic activity indicators appear to be moving back to the upside, but without switching into expansionary territory. The rebound in industrial output is a positive factor that should continue to support markets. Our view has shifted from under-exposed to neutral on the asset class.

UNITED STATES

US market indices have been supported by a very strong corporate earnings season. Economic growth remains dynamic, but with the key factors supporting activity petering out, and against a hawkish policy background, the momentum is expected to cool down gradually. Our view has shifted from over-exposed to neutral on the asset class.

EMERGING COUNTRIES

Several emerging equity markets are trading at high discounts, with some valuations falling to 20-year lows. However, we have noted positive factors that could support a rebound for emerging economies. We are therefore neutral on Brazilian and Indian equity markets, and over-exposed to the Chinese equity market.

FIXED INCOME

SOVEREIGN BONDS

We have initiated a position on inflation-linked bonds in Europe, as the disinflation process appears to be losing speed. We remain neutral on the asset class as a whole.

CREDIT

In 2024, while economic growth may be better than expected, the risk premia on credit will decline. We remain overexposed to European Investment Grade (IG) credit and neutral on High-Yield (HY) credit in both Europe and the US.

Change in view versus previous month.

\+ = − Investment team's asset class views.

CONVICTIONS (continued)

EURO/USD

Despite its recent correction, we believe that the euro still offers a rerating potential over the US dollar. Our view is that an improved current account and the economic recovery in the Eurozone will support the single currency over the next few months.

COMMODITIES

Gold provides diversification and protection against financial stability issues. As far as oil is concerned, Saudi Arabia's decision to abstain from increasing its production capacity could fuel a structural supply-side deficit and therefore, durably high prices. Our view remains neutral on these asset classes.

Change in view versus previous month.

\+ = – Investment team's asset class views.

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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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