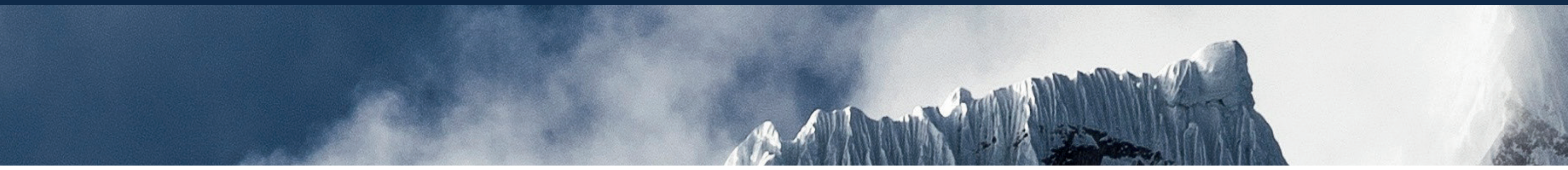
MAY 2024

Sienna INVESTMENT MANAGERS

NEWSLETTER #19



Global economic growth remains resilient*, supported by much stronger economic data in the Eurozone. The US, which had been the growth engine until now,* ***is starting to slow down.***
This environment, together with future monetary policy decisions, will determine our allocations during the second quarter.

David TAIEB, *Chief Investment Officer - Listed Assets*

SUMMARY

Growth

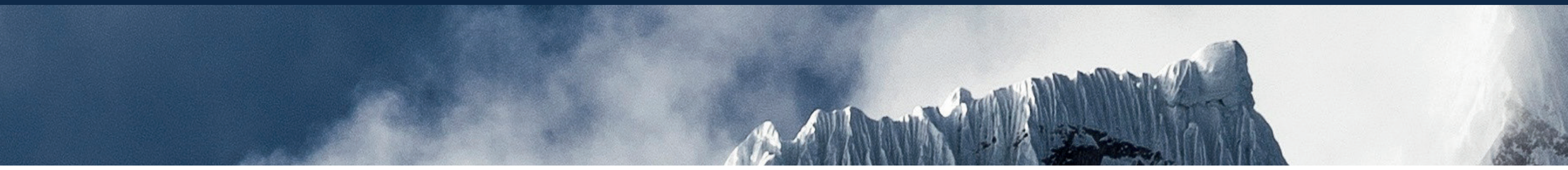
The IMF has adjusted its growth estimates for the year. Worldwide, growth is expected at 3.2 % (+ 0.1 % compared to January forecasts). In France, GDP should grow at a pace of 0.7 %, lower than the previously announced 1 % aligned with the government's objectives. Conversely, **the IMF's forecasts for annual growth in the US were revised upwards, from 2.1 % in January to 2.7 % today.**

Inflation

Global inflation continued to retreat, sliding to 2.4 % year-over-year in March - half what it was this time last year. **Nevertheless, the pace of disinflation will slow**, as favourable base effects and lower oil prices no longer apply, while at the same time, ocean freight rates have been rising. In France, inflation readings in March were 2.3 % y/y, their lowest level since September 2021.

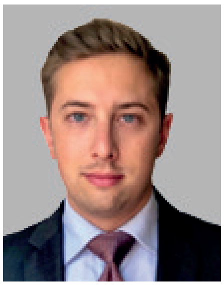
Monetary policy

The ECB kept its key rates unchanged for the fifth time in a row during its April meeting. However, a first cut could take place in June. In the United States, the situation is less clear-cut due to persisting inflation in services. While three rate cuts had been mentioned, **we now expect two in 2024, with the first occurring in July.**



SUSTAINABLE

First green light for the European Directive on Due Diligence



Igor IGNATIEFF,
ESG Analyst
Listed Assets

The European Parliament **has recently adopted a first version of the Corporate Sustainability Due Diligence Directive (CSDDD*),** a legal landmark aimed at crystallising responsible business conduct on human and environmental matters into hard law, applicable to large European companies.

These companies will be held accountable for the social, environmental, and human rights impacts generated by their business activities, and those of their subsidiaries, sub-contractors, and suppliers.

What companies are in scope ?

These new due diligence rules will apply to EU companies employing over 1,000 people and **generating revenues above 450 million euros.** They could later extend to companies employing over 250 employees and generating global revenues above 40 million euros.

**Corporate Sustainability Due Diligence Directive*

SUSTAINABLE (continued)

First green light for the European Directive on Due Diligence

Main impacts :

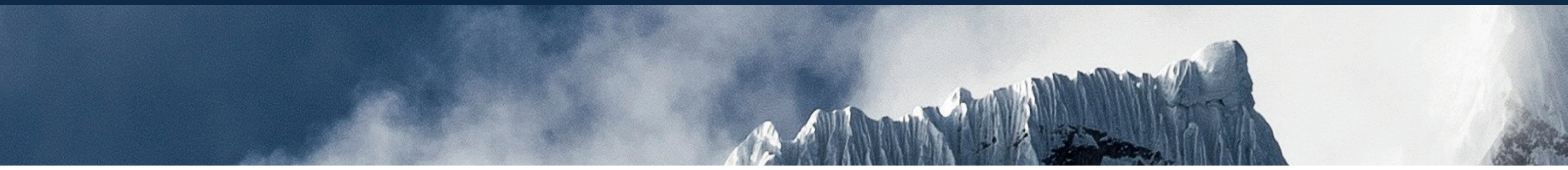
>Companies will be requested **to set up reasonable due diligence mechanisms** in order to identify, prevent, mitigate and account for human rights, environment and corruption-related risks.
>Companies will prepare and put into effect a transition **plan to limit global warming to 1.5°C.** This plan must include time-bound climate targets, specifying the key measures needed to achieve these goals and detailed figures on the investments required for the plan's execution.

Civil liability and fines :

>Companies will be held **accountable if their activities cause adverse impacts;** this may include compensation to individuals affected by human rights violations or environmental damage.
>Companies may face fines of up to 5% of their global net turnover in the event of non-compliance.
>They can be liable for damages.

The next steps :

According to the proposal made by the EU's parliament committee, **the new requirements will start to apply three or four years after entry into force**, depending on the size and turnover of the company.



TREND

Growth returns to the Eurozone

The publication of preliminary PMI* indices in April signalled a budding economic recovery in the Eurozone.

With a composite PMI at 51.4 (up from 50.3 in March), the economy appears to be rebounding faster than expected. The services sector even rose to 52.9, its highest level in 11 months. In more detail, **new orders had not grown at this pace since May 2023, while job creation is at its highest since June last year.**

Conversely, activity has continued to contract in the industrial sector. New orders have remained under pressure due to a sharp drop in demand; however, **industrial job growth is at its strongest level since June 2023.**

The IFO (business confidence index in Germany) has risen for the third month running and the first GDP estimates for the Eurozone in Q1 2024 (GDP up + 0.3 % q/q, above expectations of + 0.1 %) **have confirmed the positive trend within the region.**

This strong momentum is driven by the largest European economies, and notably Germany, where GDP growth was back in positive territory in Q1 2024 (+ 0.2 % q/q, up from - 0.2 % in Q4 2024).

** The PMI, or "Purchasing Manager's Index" is a leading economic indicator which signals the direction of business conditions in a given sector.*

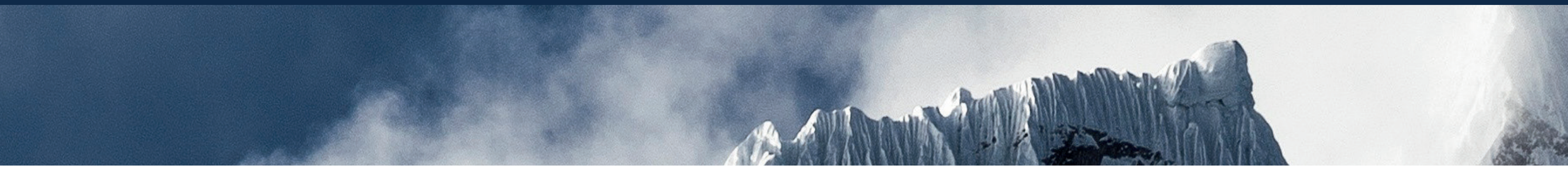
TREND (continued)

Growth returns to the Eurozone

In France, a granular look at growth data **reveals strong support from consumer spending, enabled by improved household purchasing power fuelled** by the rebound in real wages. This renewed household confidence will also help to lower excessive precautionary saving, thereby boosting domestic demand, a key factor supporting durable economic growth.

Furthermore, **underlying inflation has continued to retreat** (+ 2.7 % y/y, down from 2.9 % in March). **As inflation moves closer to 2 %, the ECB could agree to a first rate cut in June**.

This gradual rebound in activity could extend over the next few months in the Eurozone. This would open the door **to a substantial drop in bond yields**, which should lift equity markets.
After the recent consolidation in global stock markets, **we are taking advantage of lower prices to invest in more cyclical equity markets, notably in Europe, ahead of the ECB's expected rate cut.**



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

The earnings momentum is structurally weaker in Europe than in other equity markets, but it is starting to stabilise after sliding for several months. Furthermore, valuations are attractive in the Eurozone. We have therefore switched from under-exposed to neutral on the asset class.

UNITED STATES

Valuations are particularly high in the US equity market, more so than in Europe, Japan and China. We expect the S&P 500 index to rise 2% by mid-2024, and 6% by the end of the year. Nevertheless, we have maintained a neutral position on US equities.

EMERGING COUNTRIES

We are positive on the asset class overall but remain neutral on the Brazilian and Indian equity markets, and over-exposed to Chinese equities.

FIXED INCOME

SOVEREIGN BONDS

We only anticipate a modest retreat for long-term yields in the US. The trend should be sharper in the Eurozone. We have maintained our neutral view on US and European sovereign bonds.

CREDIT

We remain neutral on the asset class as a whole. Spreads are now very low, but the risk/return combination remains attractive for the asset class: the credit market seems able to withstand a wide range of scenarios - this is particularly true for European IG credit.

Change in view versus previous month.

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

CONVICTIONS (continued)

EURO/USD

While 1 euro was worth 1.07 US dollar at the end of April, we believe the European currency will rise to 1.11 dollar this summer, and possibly to 1.13 at the end of the year. Our view remains neutral on the currency.

COMMODITIES

The price of Brent has increased, although its ability to settle durably above $85 $ remains limited. Rising oil prices have also pushed up several commodity prices in their wake. However, due to political and geopolitical uncertainties, we remain neutral on the asset class.

Change in view versus previous month.

Investment team's asset class views.

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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