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Sienna INVESTMENT MANAGERS

NEWSLETTER #23

***Donald Trump's** recent election should strengthen the appeal of American assets, as multiple positive factors are converging and boosting the region. In addition to **room for manoeuvre in monetary policy, the growing use of artificial intelligence by companies,** and **persistently strong household spending**, despite current interest rate levels, the economic and fiscal measures promised by the Republican candidate could provide even further stimulus for the local economy.*

David TAIEB, *Chief Investment Officer - Listed Assets*

SUMMARY

Growth

Global GDP should grow at a pace nearing **+3,3 % in 2024**, compared with +3,1 % in 2023. This growth is driven by the positive effects of the gradual monetary easing initiated by the world's leading central banks. However, the geopolitical environment continues to cast a large shadow over the global economy.

Inflation

Global disinflation has gathered speed, notably in developed countries. In Europe, where wages and prices in services **continue to rise**, the trend is slower than in the United States. In France, after consumer prices slowed to +1,1 % in September, annual inflation stabilised at +1,2 % in October, according to Insee.

Monetary policy

With **inflation falling back below 2 % in the Eurozone**, the ECB lowered its key rates by 25 bp in October. **Announcements of further cuts are expected**. In the US, the Fed initiated its monetary easing cycle with a 50-bp cut in September, followed by a 25-bp cut this past month. According to consensus estimates, the Fed is likely to pause now until the end of the year.

SUSTAINABLE

The COP16 on Biodiversity disappoints considering the issues at stake

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In 2022, the **COP15 on Biodiversity resulted in the adoption of the Kunming-Montreal** agreement which set a global framework for safeguarding biodiversity, with countries pledging to preserve 30% of land and oceans by 2030.

Two years later, **the COP16 - which ended on November 1st - aimed at translating these commitments into practical policies.** However, only 44 countries out of 196, including France, submitted their national biodiversity strategy.

The COP16 conference was also expected to decide upon a monitoring framework for the Kunming-Montreal agreement, **to track the progress made by each country in fighting biodiversity loss** relative to the global objective. **The goal was not achieved** and no agreement around this major issue was reached.

The COP17 will therefore **review the efforts made, but without having previously determined the rules and indicators used for the monitoring process.**

SUSTAINABLE (continued)

The COP16 on Biodiversity disappoints considering the issues at stake

Resource mobilisation was also a major stumbling block. No decision was made regarding the mobilisation **of $200 billion per year by 2030**, as planned by the COP15. Only the GBFF, under the auspices of the World Bank, has received pledges of an additional $163 million per annum to support Southern countries in achieving their biodiversity preservation goals.

The **COP16 conference fell short of expectations and failed to address major issues**, though some progress was made, nonetheless. These talks do not bode well for the COP29 Climate conference due to take place in Azerbaijan from November 11-22.

Despite frequent warnings, **biodiversity loss has not yet triggered a serious wake-up call**. The ECB had, however, issued a warning in a report published a few days prior to the COP16 conference, **explaining that the erosion of biodiversity poses a significant threat for Europe's economy**. According to the ECB, 72 % of Eurozone companies (around 3 million companies) *"are highly dependent on ecosystem services and would therefore experience critical economic problems as a result of ecosystem degradation"*.

Without these ecosystem services, entire industries within the European economy would be unable to function.

TREND

Monetary easing supporting global economic growth

Global economic activity weakened a little in Q3. The global composite PMI came in at 52 in September, down from 52.8 in August. Some countries, such as the United States, Japan, the UK, and Brazil enjoyed robust growth, while the Eurozone and China showed either signs of contraction or stagnation.

Disinflation has resumed, notably in developed countries, and **the recent drop in oil prices will amplify this phenomenon.** Apart from Japan and Brazil, **most central banks have initiated their rate cutting cycle**, which will partly offset the expected tightening of fiscal policies in 2025. Job creation is slowing but remains positive. Unemployment is still very low globally. Household spending remains strong overall, notably in India, Brazil and in the US.

More specifically, **the US economy is proving more resilient than expected.** Employment data was robust in September and the household savings rate is rising again – potentially providing an additional boost for consumer spending. In the corporate space, quarterly earnings publications have remained positive overall.

In the Eurozone, activity slowed sharply during the summer : the industrial sector slipped back into recession and services weakened; household spending remained below expectations ; the disinflation process is proving more protracted than in the US ; and capital expenditure is tumbling.

TREND (continued)

Monetary easing supporting global economic growth

In China, after a disappointing start to 2024, **growth is expected to rebound at the end of the year** thanks to the stimulus package announced by the Chinese authorities, which includes monetary, banking, real estate, fiscal and financial measures.

Globally, **the economic cycle remains in expansionary territory.** According to our scenario, global GDP should grow 3 % in 2024 and 2025, supported by oil prices, ebbing inflation, and more accommodative monetary policies.

With Trump's victory in the presidential election and the Republicans winning control of the Senate, the US should enjoy stronger economic growth with higher inflation risks and interest rates. With no majority in Congress, Donald Trump's plans to stage a major trade war could meet legal hurdles or be delayed in its implementation - which could have an impact on financial assets.

In this environment, **we have not altered our main asset allocation strategy**. We remain neutral on equities, and on the bond side, are considering raising our funds' duration to account for the brutal rise of US and European sovereign yields.

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 continue to prefer European equity indices. Europe has already reached its trough, and monetary easing is enabling industrial activity to recover. Our view therefore remains positive on Eurozone equities, which we believe, are still benefiting from a *re-rating*.

UNITED STATES

With the 3rd quarter earnings season still under way, the US market continues to benefit from strong investor momentum. However, our view remains neutral on US equities, which display higher valuations than their European counterparts.

EMERGING COUNTRIES

Following the stimulus package announced in China, we took profits on 50 % of our Chinese equity exposure. Nevertheless, we remain over-exposed to emerging countries, notably to Brazil and China.

FIXED INCOME

SOVEREIGN BONDS

We have maintained our neutral view on sovereign bonds. Although global inflation has ebbed, monetary easing has been limited so far. Long-term yields will only fall moderately, though the movement should be a little stronger in the Eurozone.

CREDIT

We initiated a position on financial subordinated bonds. We have remained overweight on credit overall, notably on the European Investment Grade segment.

Change in view versus previous month.

+ = – Investment team's asset class views.

CONVICTIONS (continued)

EURO/USD

While the Fed's rate cut has not weakened the US dollar, the Euro should continue to appreciate relative to the USD in 2025. We therefore remain over-exposed to the Euro relative to the USD.

COMMODITIES

In a complex environment, we still expect Brent crude oil to rise in the short-term, to 80-85 dollars per barrel. We shall be attentive to the statements issued by the OPEC Ministers, who will meet on December 1st.

Change in view versus previous month.

Investment team's asset class views.

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