***Euphoria has taken hold of markets as we enter 2023**. We shall 'go with the flow' in our investment decisions, but with moderation.*

Indeed, we believe that the issues of inflation and restrictive monetary policies are not entirely behind us. Concerns over core inflation (which excludes energy prices) persist, while the risk of a wage-price spiral remains on the cards.

Our allocation strategy, which favoured the Eurozone and Value plays, delivered as expected, which is why we shall maintain our current positioning in the weeks to come.

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

SUMMARY

Growth

Consensus global growth estimates for 2023 have been lowered further, to 2.1%. A growing number of economists have started to factor in a worldwide slowdown next year. We expect the global economy to **grow at an average pace of 2.5 % in 2023**, driven by the reopening of the Chinese market.

Inflation

Over the past year, **global consumer price inflation has been hovering around 8 % for the 6th consecutive month** and consumer prices may have already peaked globally. According to Eurostat Flash estimates, 12-month inflation in the Eurozone stood at 9.2 % in December, down from 10.1 % in November. This disinflation was principally down to energy, a sector where 12-month inflation has dropped from 35 % to 26 %.

Monetary policy

The global economy will be impacted by **much tighter monetary conditions** due to the hawkish policies deployed by central banks. The Fed has scaled back the pace of its interest rate hikes from December. The ECB is continuing to apply the restrictive monetary policy initiated in 2022.

SUSTAINABLE

A landmark agreement on biodiversity was reached at the COP15

Astrid LIEDES,
Analyst - Responsible Finance.

The COP15 meeting on biodiversity took place from 7 to 19 December in Montreal, with a clear objective: to agree on a post-2020 global framework to reverse biodiversity loss. According to the IPBES[1], the world's stock of natural assets is deteriorating at a faster pace than ever due to human activities, impacting the planet's ability to provide basic essential services. Today, 40% of the global economy relies on biodiversity, 60% of which is under direct threat.

The framework previously adopted in 2010 (the Aichi objectives – still far from being achieved in 2020) failed to curb the trend. Much was therefore expected of the COP15 meeting, to create a global biodiversity framework for 2050, with actions to be taken by 2030. Four main pillars and 22 underlying targets were defined, from protecting the integrity of ecosystems and ensuring the equitable distribution of genetic resources, to guaranteed funding, by incorporating biodiversity into broader sustainability efforts.

«The final agreement pledges to protect 30% of the planet, restore 30% of the world's ecosystems, and halve the risks posed by pesticides before 2030.»

[1] IPBES: Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services.

SUSTAINABLE (continued)

A landmark agreement on biodiversity was reached at the COP15.

Nevertheless, some targets are lacking in detail, notably due to the absence of specific criteria identifying a "protected area".

According to World Bank [1] estimates, the total volume of finance flows from public and private entities that are harmful to biodiversity is five to six times larger than global expenditure aimed at preserving biodiversity. The final deal has agreed to mobilise 20 billion dollars per year until 2025 and 30 billion by 2030 at the latest to support the preservation and restoration of biodiversity, as an alternative to the 100-billion subsidy demanded by Southern countries. Finally, government subsidies that are harmful to the living world will be gradually phased out by at least 500 billion dollars per year by 2030.

The COP15 on biodiversity marks a radical shift in the attention paid to natural capital. This trend will gain further momentum over the next 12 months as the TNFD [2] is finalised and the new disclosure requirements on biodiversity come into force in France, under article 29.

[1] World Bank research : https://openknowledge.worldbank.org/bitstream/handle/10986/35882/A-Global-Earth-Economy-Model-to-Assess-Development-Policy-Pathways.pdf?sequence=1&isAllowed=y

[2] TNFD : Taskforce on Nature-related Financial Disclosures.

TREND

Optimism prevails

Throughout 2022, European investors navigated a volatile and uncertain environment caused by the conflict in Ukraine – which is dragging on, the energy crisis, soaring inflation, rising interest rates – orchestrated by the European Central Bank, and indirectly, the Chinese health restrictions imposed by the country's "zero-Covid" policy. These conditions pointed towards a growing risk of recession in 2023.

However, several positive developments over the past few weeks have brightened the picture :

- **Inflation is easing both in the United States and in Europe**, prompting Central Banks to scale down the pace of their interest rate hikes going forward.
- **The energy crisis** has been mitigated by this winter's milder-than-normal temperatures, which helped to drive down energy prices.
- **In China, it only took one month for the government to "drop" its zero-Covid policy.** The reopening of the Chinese economy throughout 2023 should be supportive for the global economy.

We believe that the main asset classes offer potential upside in 2023. Money market investments are once more delivering positive returns, while **on the bond side, negative yields are in the past.** Furthermore, the 2022 equity market correction factored in the economic slowdown in Q1 2023 and rising interest rates. After a bearish year, global equity markets are now displaying more attractive valuations.

« As we enter 2023, we are keeping our exposure to banks, real estate (compelling valuations and yields), and luxury players (the earlier than expected reopening in China is clearly positive for the industry. »

TREND (continued)

Optimism prevails

We have kept our bias in favour of Value - or undervalued – stocks and on European small and mid-caps. Within our global equity funds, we have maintained our position in US Growth stocks through exposure to the Nasdaq, while hedging currency risk, as we firmly believe that the Euro will continue to rise against the US dollar.

We shall also pay close attention to the upcoming Q4 2022 earnings season. The next quarterly earnings publications will offer precious information on the evolution of company sales and profits, as well as insights on their outlook for 2023.

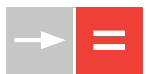
CONVICTIONS

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 Eurozone economy slowed in Q3, but the slowdown was more moderate than expected. Household consumer spending held up well thanks to a robust labour market, government fiscal aids and the lower savings rate, all of which alleviated the loss of purchasing power, in real terms. Broad inflation appears to have peaked.
Interest rate hikes will continue at a slower pace.



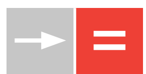
UNITED STATES

The Fed is continuing to raise interest rates. Excluding energy, disinflation remains rather modest, slowed down by rising rent prices and wages. Activity in the US is weakening gradually, and the economy is expected to slide into a moderate recession during the first half of 2023.

EMERGING COUNTRIES

We shall remain selective. It took China only one month to drop its zero-Covid policy. Economic growth should rebound sharply after the last wave of Covid and continue throughout 2023. However, our exposure to China remains tactical.

FIXED INCOME



SOVEREIGN BONDS

We shall switch to positive on European sovereign debt once 10-year yields reach 2.5% in Germany, 3% in France and 4.5% in Italy. At these levels, the yields on offer would become attractive again over the mid-term.

CRÉDIT

We feel that exposure to credit remains relevant given the attractive yields. A bond offering a 4% yield over 5 years at a time of stagnant economic growth is an attractive investment. European IG credit is therefore particularly compelling in terms of risk-adjusted returns.

Change in view versus previous month.

Investment team's asset class views.

CONVICTIONS (continued)

EURO/USD

With investors no longer relying on the US dollar as a safe haven, the trade deficit deepening in the Eurozone (winter), and the adjustments being made to ECB policy forecasts, our scenario of a rising Euro has been substantiated.

COMMODITIES

The global economic slowdown and its impact on demand will not be favourable to commodity markets. The price of oil is falling, while gold is at an 8-month high as long-term rates, the US dollar and crypto assets decline. Nevertheless, gold is less attractive as a hedge against inflation given the rising money market rates.

Change in view versus previous month.

Investment team's asset class views.

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