***Markets are volatile** and investors' nerves have continued to be tested by regional banks in the US and the tug of war over the debt ceiling.*

*With the **first quarter earnings season now behind us**, markets will focus on the economic indicators that will determine the Fed and the ECB's monetary policy decisions, following their meeting on June 14-15th. In this regard, the statements issued by several members of the FOMC (Federal Open Market Committee) have indicated that an additional **interest rate hike in June remains on the cards**, while the ECB is expected to raise its key rates further.*

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

SUMMARY

Growth

The **global composite PMI index** (indicative of the economic health of a given region or sector) **rose for the 5th consecutive month**, closing the period at 54.2 - a level unrecorded since December 2021. The services sector has outperformed, in contrast with manufacturing. Word of caution over a possible slowdown in growth before the end of the year.

Inflation

Although **the disinflation process is slowly underway**, inflation persists throughout the world. Within the Eurozone, headline inflation came in at 7% year-over-year in April despite a surprise 0.4% decline in food prices – the first since December 2020. In the US, underlying inflation remains above 5%.

Monetary policy

We believe that most of the **monetary response is behind us** and that long-term rates are unlikely to continue climbing over the next few months. While the Fed is considering a pause, the ECB believes it still has a way to go before it can achieve its inflation target. We therefore expect the ECB to raise its key rates further, but in a more cautious manner.

SUSTAINABLE

Climate change: soon to be a “key topic” at company shareholders’ meetings?

Jean-Marie PÉAN,
Director - Responsible Finance.

The **annual meetings season is drawing to a close** and although some AGMs have yet to be held, **climate change featured as a prominent issue in several of the meetings**. While the theme was barely mentioned a few years ago, a growing number of companies have now purposely added their climate strategy to their meeting agendas.

One of the reasons is the **growing interest shown by shareholders** for these climate-related issues. Some even attempt to add new climate resolutions to AGM agendas. They call for reinforcing the company’s climate strategy, the alignment of this strategy with the Paris Agreement objectives, or the disclosure of more details on the methodologies used to calculate CO2 emissions. But above all else, they want **transparency from companies**.

SUSTAINABLE (continued)

Climate change: soon to be a "key topic" at company shareholders' meetings?

Engie, for example, presented a resolution that had been submitted by several institutional investors, requesting a "say-on-climate" vote every three years on the Group's strategy and an annual presentation on its actual implementation.

Axa was asked about the environmental impact of its liquefied natural gas projects in the United States during its recent AGM.

Veolia also received questions on its coal-fuelled electric power capacities in China (exit plan, exit calendar, exit conditions).

The **Carrefour Group** dedicated one of its resolutions to climate change, and presented the levers it will pull to decarbonize its scope 3 emissions. An external resolution was also submitted on this same issue.

Finally, **TotalEnergies** proposed a "say-on-climate" vote on its Sustainability & Climate report and added an external resolution on the group's indirect scope 3 emission targets to the agenda.

TREND

Global economic growth withstands the divergence between Manufacturing and Services.

Global economic activity has continued to improve, while the global composite PMI index hit its highest level since December 2021. An improvement which is down to several factors:

- Declining risk of recession in Europe and in the United States.
- Ebbing cost of production and energy.
- Normalisation of supply chains.
- Reopening in China.
- Resilient labour markets and household spending.

On this final point, household confidence has improved rather significantly over the past few months in almost every country. **Consumer spending** is therefore expected to **recover**, supported by **ebbing inflation** which should improve households' purchasing power.

In **emerging countries, growth has continued to surprise on the upside**, as according to the IMF, India and China should account for half of the world's economic growth in 2023. In Q1, Chinese growth came in above expectations (9.1% annualised) while in India, the composite PMI index rose from 58.4 in March to 61.6 in April.

TREND (continued)

Global economic growth withstands the divergence between Manufacturing and Services.

Although growth is particularly vigorous across both manufacturing and services in these two countries, clouds have begun to form over the **manufacturing sector** – which g**lobally, has now almost entered a recession**. Industrial players remain cautious (reduced hiring and investments, deliberate destocking policy), while **services are resisting** as some are rather uncorrelated from industry (tourism, leisure & entertainment etc.)
Nevertheless, considering how the manufacturing sector tends to pull the rest of the economy, it seems unlikely that services will be able to maintain their current positive momentum unless the industrial sector recovers.

Furthermore, **real estate markets have reversed course** and are now declining in the developed world. The recent turmoil within the banking sector is likely to encourage further caution in credit distribution policies. The deteriorating financial conditions due to monetary tightening are impacting the cost of funding and corporate investments, as well as household spending and the property market. Disinflation is underway, but at a slow pace.

In this environment, equity markets are very likely to fluctuate on the down or on the upside. We have therefore chosen to **remain neutral on equities as an asset class**.

Central banks **may agree on a further interest rate hike** in their upcoming meetings in June, after the possibility of one or more cuts was rejected. Two additional 0.25% hikes in June and July are likely; however, we anticipate that the interest rate hike cycle will close before the end of the year, with a terminal rate peaking at 5.25% for the Fed and 3.75% for the ECB.

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

European equity markets performed well, making up for their 2022 losses. Current prices have factored in a scenario of inflation-free economic growth and a central bank policy that is less restrictive. In terms of market valuations, European equities are now less attractive than other global equity markets.

UNITED STATES

The US economy continues to demonstrate resilience and statistics have not revealed a contraction. This resilience has encouraged us to switch to 'overweight' on US equities. The declining dollar and the prospect of an end to monetary tightening in the US will also act as positive catalysts.

EMERGING COUNTRIES

We shall remain selective: we are overexposed to the Chinese equity market and have initiated a new exposure to Indian equities.

FIXED INCOME

SOVEREIGN BONDS

Yields are back to attractive levels over the mid-term and a modest easing in rates could generate additional performances for this asset class. The likelihood that rates will rise above current levels appears limited to us with central banks about to end their monetary tightening cycles.

CREDIT

If economic growth turns out stronger than expected in 2023, credit risk premia will decline. In addition, if an unfavourable scenario plays out, IG (Investment Grade) credit appears more robust than High-Yield.

Change in view versus previous month.

+ = – Investment team's asset class views.

CONVICTIONS (continued)

EURO/USD

→ +

With the dollar losing its status as a safe-haven for investors, the trade deficit no longer growing in the Eurozone, and adjusted expectations on ECB policy, we are comforted in our scenario of a rising euro against the dollar.

COMMODITIES

→ =

The price of gold is now close to its all-time highs of August 2020. At these levels, we shall remain neutral on the asset class. As far as oil is concerned, the OPEC's recent decision to cut production has intensified the risk of a supply shortage amid growing demand. As oil prices continue to rise, we see Brent prices increasing to 95 dollars/barrel by the end of the year.

↗ → ↘ Change in view versus previous month.

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

Sienna
GESTION

Sienna Gestion - French *société anonyme* governed by an executive board and a supervisory board with a capital of € 9,728,000 - 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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