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Sienna GESTION

NEWSLETTER #13

***The American central bank** (FED) **has revised its growth forecasts upwards for 2024 !** The Fed also indicated that it expected the labour market to deteriorate very slightly next year, and for the first time in several quarters, referred to inflation in almost suggestive tones. This very hawkish* stance sent yields soaring, with stock market valuations taking a heavy toll.*

** Term used to refer to an economic policy advocating interest rate hikes and a restrictive monetary policy.*

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

SUMMARY

Growth

Global growth forecasts are weaker for 2024, despite the strong resilience of the US economy. This slowdown is likely to materialise this year, as **the Eurozone economy** is now expected to **grow 0.6%**, down from the previously announced 0.9%. While Germany is in recession, the OECD has upgraded its forecasts for France to 1% in 2023, but revised expectations for 2024 from +1.3% to +1.2%.

Inflation

Last year's 8.5% peak in global inflation now seems far behind us. Throughout the world, **inflation has continued to abate**, settling a little above 4% in August. Nevertheless, disinflation is losing momentum, particularly in Europe, due to energy prices. Inflation in 2024 is expected to average 3.9% globally, 2.5% in Europe and 2.6% in the United States.

Monetary policy

Global sovereign yields have rebounded, but we believe **this spike is now over** - although yields will remain durably high. In France, financial conditions will be tightened further, though the pace is expected to slow. The maximum legal interest rate will be adjusted on a monthly basis until the end of the year.

SUSTAINABLE

Everything you need to know about CSRD, the new extra-financial reporting guidelines

Astrid LIEDES,
Analyst - Responsible Finance.

Developed in 2014, the "Non-Financial Reporting Directive" (NFRD) is the European directive that lays down the extra-financial reporting requirements. As part of its sustainable finance plan, the European commission had planned on strengthening the disclosure of information on the sustainability of economic activities. **This is where the new "Corporate Sustainable Reporting Directive" (CSRD) comes into play, aimed at standardising reporting practices and improving the availability and quality of the extra-financial data disclosed by companies** (climate, biodiversity, workers in the value chain, business conduct etc...). Further European Sustainability Reporting Standards (ESRS) will also complement the application of the directive.

The cornerstone of the directive is a double materiality assessment, including:

- First, impact materiality - how the company's actions impact its environment.
- Second, financial materiality - how ESG risks and opportunities impact the business.

SUSTAINABLE (continued)

Everything you need to know about CSRD, the new extra-financial reporting guidelines

This assessment serves as a starting point: **material information will be provided in more detail throughout the report, in compliance with ESRS standards (policies, indicators, action taken etc.)**.

This new reporting requirement will apply to almost 50,000 companies, up from around 12,000 previously. The scope has expanded to include European companies with over 250 employees (compared to 500 beforehand), to listed SMEs and non-European corporations that generate over 150 million Euro in sales and have a subsidiary or branch in an EU country. A detailed timeline for the application of the directive has been provided: companies already subject to NFRD will be the first to report under CSRD, starting in 2025 on FY2024. For other companies, a progressive implementation scheme will be spread out over several years until 2028.

The report will require approval from a statutory auditor or independent third-party in all European countries to verify the quality of the information disclosed and the strength of the materiality matrices. The level of assurance will also be higher.

The CSRD was adopted to support the goals set by the European Green Deal and the Paris Agreement, by strengthening the disclosure of information on the sustainability of economic activities, and therefore, improving how companies address these extra-financial issues.

TREND

India: great economic power?

Compared to developed countries, **emerging market economies** are about to **enjoy a growth "head start", combined with the lowest relative valuations in 20 years**. The end of the interest rate hiking cycle and a strong US dollar - that is expected to depreciate - are two factors that are weighing in favour of equity market valuations in emerging countries.

On this subject, we **remain overexposed to Indian equities**, a country where economic statistics have been pointing towards strong growth since the beginning of the year. Domestic demand and business optimism have now risen to high levels. India's GDP has grown at a pace of 7.8% over 12 months (as of Q2 2023), its highest in four quarters. The government also believes that estimates of 6.5% growth over the next couple of years are realistic.

India is increasingly perceived by Western decision-makers and investors as a credible alternative to China, which is now suffering from sluggish growth, geopolitical risk with Taiwan, and restrictions on its technology-related exports to the United States.

TREND (continued)

India: great economic power?

India displays a number of assets compared to China:

- The Indian population is now larger than China's and is continuing to grow at a fast pace. India is one of few dominant macroeconomic blocks (USA, Europe, Japan, China) where the growth of the working age population will accelerate substantially over the next few decades.

- Wages are still much lower in India than they are in China. The intentions and/or decisions made by large corporations to transfer their production facilities from China to India are confirming this trend.

- India has built a digital empire, while the economy of its main rival is causing worry among investors.

- India is now the world's 5th largest economy in current dollars. It ranked 14th in 1995.

The Indian stock market weighs 15% of the MSCI Emerging Markets index (the reference for measuring the market performance of the 26 emerging economies). While European exposure to China stands at around 9%, and under 2% for India, we observe a huge potential in several sectors, particularly civil nuclear energy, air transportation, clean and smart cities, the digital industry, armament, or artificial intelligence. Generally speaking, the under-investment in India over the past twenty years has resulted in a relatively low capital stock. This implies a high average return on equity, which is encouraging for the Indian equity market. The opposite is true in China.

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 have switched from neutral to overweight on Eurozone equities. The European equity market is currently trading at a low point compared to global markets. The weaker Euro is an additional factor that will support exporting companies' earnings. This will partly protect EPS growth forecasts for 2024. Household real income is rising, and the falling unemployment rate will support consumer spending.

UNITED STATES

We have switched back from overweight to neutral. US equities are now trading at unfavourable valuations. Persistently high interest rates, a strong dollar, and declining household savings at a time of lower corporate profit margins, is likely to weigh on business activity in the US over the next few months.

EMERGING COUNTRIES

We remain selective in emerging equity markets. We are positive on China, but cautious in the near term, and have reduced our exposure to the Chinese market by half. We have initiated a new position in Brazilian equities and remain over-exposed to Indian equities.

FIXED INCOME

SOVEREIGN BONDS

Sovereign yields have spiked to levels we believe are not sustainable, particularly in the US, which is why we have protected the yields offered on the bond asset class.

CREDIT

Our view on IG Credit is positive. The asset class has performed rather well over the past few weeks thanks to a modest contraction in spreads. We remain neutral on European and American High Yield credit.

Change in view versus previous month.

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

CONVICTIONS (continued)

EURO/USD

As a result of rising long-term rates and investors' positive perception of the US, the Euro is currently suffering from the strength of the dollar. We believe that the Euro continues to offer a rerating potential relative to the US dollar. Improvements in Europe's current account balance will be a durable support factor for the single currency in coming months.

COMMODITIES

Disinflation could support gold, which remains on an upward trend over the mid-term despite a slight slowdown during the quarter. We have maintained our over-exposure to gold. As far as oil prices are concerned, we believe that most of the rise is behind us, and we are expecting Brent prices to return to $80/b at the end of the year.

Change in view versus previous month.

Investment team's asset class views.

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GESTION

Sienna Gestion - 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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