OCTOBER 2024

Sienna INVESTMENT MANAGERS

NEWSLETTER #22

Inflationary pressures have now eased, allowing ***central bankers to adjust their monetary policies*** *in a strong economic environment. Although data is weakening in some areas, we do not believe the global economy is heading for a recession. We have therefore maintained* ***a positive view across our allocations****, notably on* ***risk assets****. Meanwhile, we are keeping a close watch on geopolitical tensions in the Middle East, as several portfolio positions would be impacted if the crisis were to spread internationally.*

David TAIEB, *Chief Investment Officer - Listed Assets*

SUMMARY

Growth

After rising 0.2% in Q2, **France's GDP is expected to grow at a pace of 0.4% in Q3**, bolstered by the hosting of the Olympic Games, despite the country's political uncertainty. T**he global economy accelerated in August** after slowing in July and should grow at a pace nearing +3.3% in 2024, compared with +3.1% in 2023.

Inflation

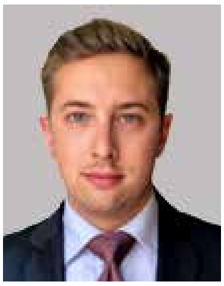
Global inflation accelerated slightly during the summer (+3.1% year-over-year) but overall, disinflation remains the dominant trend. Prices in the United States rose at a slower pace of 2.5% in August, the fifth monthly slowdown in a row. In the Eurozone, inflation eased from +2.6% in July to +2.2% in August.

Monetary policy

The ECB lowered its key interest rates by 25 basis points for the second time this year. A further rate cut in October seems unlikely, though recent progress on the inflation front has opened the door to future cuts. In the US, the Fed may lower its rates by 25 bp at each of its next three meetings.

SUSTAINABLE

Say on Climate: review of 2024



Igor IGNATIEFF,
Climate Analyst

'**Say on Climate**' is a mechanism based on '**Say on Pay**' that allows shareholders to vote on a company's climate strategy, generally in an advisory capacity. The aim of this resolution is to **encourage companies to adopt ambitious and transparent policies to fight climate change**.

In France, these resolutions tend to be presented by the board of directors at the annual shareholders' meeting. They may cover several key aspects:

- a climate transition plan with clear emission reduction targets,
- short, mid and long-term milestones,
- a roadmap to carbon neutrality,
- an engagement policy with shareholders and other stakeholders,
- an investment and innovation strategy aimed at redirecting funds towards sustainable projects and phasing out polluting activities.

SUSTAINABLE (continued)

The assessment of climate risks - whether physical or transition-related - is a key feature of Say on Climate resolutions. The transparency of reports based on key performance indicators (KPIs) and the regular publication of results are also important aspects of Say on Climate votes. The role of the Board is under the spotlight, as remuneration plans are linked to climate performances and the company is accountable for achieving a sustainable supply chain. A carbon compensation plan may also be included if necessary.

According to a report published by the Responsible Investment Forum (RIF)*, **26** Say on Climate resolutions were put to the shareholders' vote in 2024, of which **21 in Europe**. Although climate strategies were often viewed as under-ambitious in response to the global challenges of climate change, the average approval rate remained high at 87.4%.

As an example, during the AGMs held by TotalEnergies and Eramet, the approval rate for climate resolutions was 74.6% and 90%, respectively. This underscores the divergent approaches used to address climate change issues, despite a general desire to improve transparency and sustainability performances.

* https://www.frenchsif.org/isr_esg/publication-du-bilan-des-say-on-climate-2024/

TREND

China unveils new stimulus measures to boost its economy

In recent months, China has faced a structural economic slowdown fuelled by weaker domestic and foreign demand. China's GDP only grew 4.7% year-over-year in Q2, down from +5.3% in Q1. **In August, Chinese industrial output slowed more than expected**, weighing on capex in infrastructure, industry and real estate. The property market has contracted sharply. Industrial activity has fallen to a five-month low, and **the unemployment rate stood at 5.3% in August, up +0.1% compared to July**.

The stimulus measures implemented so far by the Chinese authorities have proven inadequate and failed to curb the economic slowdown. Consequently, **Beijing has recently announced a massive stimulus package involving monetary, banking, real estate, fiscal and financial policies.** The authorities have committed to stabilising the property market by lowering the minimum down-payment for second home purchases to 15% from 25%.

The Chinese government also **ordered banks to lower the mortgage rates for existing home loans** before October 31st. This move aims to improve the spending power of homeowners and thereby boost investment. The People's Bank of China has also lowered its interest rates and reduced the reserve requirement ratio (RRR) **to spur growth**.

TREND (continued)

China unveils new stimulus measures to boost its economy

On the fiscal front, China announced it would give one-off **cash handouts to residents** facing hardship and vowed more benefits for unemployed people in order to support consumer spending.

On capital markets, the government will set up a swap facility allowing securities firms, funds and insurance companies to tap more liquidity. **A 300-billion-Yuan refinancing facility will also be created** to support corporate stock buybacks. Buoyed by these measures, the HSI, MSCI China and CSI 300 equity indices rallied by around 20% in just a few days and are now trading close to their 20-month highs.

We now expect the country's growth outlook and Chinese consumer confidence to improve drastically as the property slump draws to an end. Ultimately, this set of stimulus measures could kick start the economy and foster healthier consumer spending trends, which could potentially add 20% to current equity valuations.

In this environment, **we have remained overexposed to Chinese equity markets**.
Further stimulus measures may be approved at the end of October following the meeting of the Permanent Committee of the National People's Congress.

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

Our positive view on Eurozone equities is unchanged. The cyclical trough is over in Europe and further monetary easing should facilitate a recovery in industrial activity. We believe that European indices are poised for a potential rerating in the next few months.

UNITED STATES

Earnings growth within the small cap segment should turn from negative to positive in Q3. Analysts are expecting a robust 21% EPS growth for the S&P SmallCap 600 index in Q4 2024. However, our view remains neutral on US equities which appear less attractive than their European counterparts.

EMERGING COUNTRIES

Emerging equities have delivered positive returns overall on a year-to-date basis, driven notably by the outperforming Indian market. We remain overexposed to the Chinese, Indian and Brazilian markets.

FIXED INCOME

SOVEREIGN BONDS

The Fed's monetary easing has been rather limited; as a result, the retreat of long-term yields should be modest in the United States. In the Eurozone, the easing has been stronger. We have maintained our neutral view on sovereign bonds, both European and American.

CREDIT

We are generally overweight on credit, notably on the European Investment Grade segment. In contrast, we have remained neutral on US IG and on European and US High-Yield credit.

Change in view versus previous month.

Investment team's asset class views.

CONVICTIONS (continued)

EURO/USD

→ +

The Euro's rebound against the dollar has been delayed but could still materialise, supported by a recovering economy in Europe and deep deficits in the US. Our view remains positive on the Euro over the USD.

COMMODITIES

→ =

The price of crude oil has dropped in recent weeks. However, our forecasts for oil prices ($85/bbl. in 2024 and $80/bbl. in 2025) are unchanged. We have therefore maintained our neutral view on oil and gold.

↗ → ↘ 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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