FEBRUARY 2025

Sienna INVESTMENT MANAGERS

NEWSLETTER #25

*Could the recent* ***outperformance of European equity indices*** *herald an upbeat year in 2025? Recent market performances have certainly* ***confirmed our allocation choices and our decision to strengthen Europe****. The fact that European yields are mirroring their US counterparts seems inconsistent to us, and we have therefore* ***raised the modified duration within our portfolios****. We shall keep a close eye on the normalisation of current valuations before adjusting our positioning to return to neutral.*

**David TAIEB**, *Chief Investment Officer - Listed Assets*

# SUMMARY

## Growth

Supported by ebbing inflation and gradual monetary easing, **global GDP growth should settle at +3% or more in 2024**. This year, the IMF has kept estimates stable at +3.3%. Nevertheless, the global geopolitical environment and uncertainties about Donald Trump's economic agenda remain key factors to look out for.

## Inflation

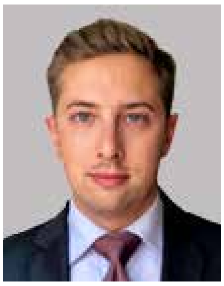
In December, for the 3rd month running, **consumer prices rose +2.9% and +2.4%, respectively, in the United States and in the Eurozone**. In France, inflation remained stable in December at +1.3%. Global disinflation has slowed down but should resume going forward.

## Monetary policy

With inflation under control, **monetary policy has eased in most of the world's large countries**. We expect a 0.25% rate cut at each of the ECB's policy meetings, at least until next June, which would bring the terminal rate to 1.50% at the end of 2025. In the US, the Fed may only lower its key rates twice during the first half of 2025.

## SUSTAINABLE

# EU Green Bonds: promises and contradictions



IGOR IGNATIEFF,
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The **European green bond standard (EuGB)** which came into force on December 21st, 2024, **is a major step forward to support the development of sustainable finance within the European Union**.

Adopted after two years of negotiations, this set of rules **establishes a uniform standard for green bonds and is an effective tool to prevent greenwashing**. By providing clear and transparent criteria, EuGB aims to build investor trust and channel funds towards truly sustainable projects.

The EuGB standard is an **opportunity for the green bond market to transform.** By encouraging issuers to improve their sustainability practices, it could also f**oster an environment involving much tighter requirements for green bonds**.
The first successful issuances under these standards, notably by corporate issuers, could also prompt other players into adopting similar norms.

So, while the broad adoption of EuGB does face some hurdles, it could nevertheless **play a positive role in funding the environmental transition by establishing transparency and accountability standards**.

# SUSTAINABLE (continued)

## EU Green Bonds: promises and contradictions

The successful implementation of EuGB could build investor confidence and facilitate the transition to a more sustainable economy.

But having just come into force, EuGB is already raising eyebrows. Indeed, **Brussels has decided not to apply this strict standard to its own green bonds** on account of an issuance calendar that spreads into 2026 and the inability to change the rules mid-financial year.
By choosing to maintain the initial framework of its green bonds, based on more flexible principles, the EU appears to have weakened the potential impact of EuGB and fuelled criticism over its complexity and over-regulation.

This **ambivalence could discourage issuers from fully embracing this new standard and thereby hinder its effectiveness**.

## TREND

# Continuity as we enter 2025?

**The global economy continued to grow in 2024**, despite persisting geopolitical and political tensions. On the macroeconomic front, **inflation is now under control and the world's central banks have begun lowering their rates**. 2024 was also a very busy year on the political front, marked by Donald Trump's return to the White House and major political instability in France and Germany.

Turning to asset class performances, money market and bond investments closed the year more than +3% higher.
In equity markets, the Eurozone index, the Eurostoxx 50, delivered a positive annual performance of +7.6%, while the US Dow Jones and Japanese Nikkei rose over +12% and +19%, respectively. In contrast, the CAC 40 index closed 2024 lower (-2.15%).

**Looking ahead to 2025**, we expect **global GDP growth to come in at around +3%**, principally driven by the United States, China and India.

**In the Eurozone**, we feel the ECB has no other choice than to **lower its key rates substantially**. This should allow real estate investment and capex to rebound. Ebbing inflation, combined with rising wages, should boost households' purchasing power and stimulate consumer spending.

## TREND (continued)

# Continuity as we enter 2025?

**In the United States**, **the economy should remain robust and continue to surprise on the upside**, notably thanks to Trump's pro-growth programme.

We are also **upbeat on China**, given the country's pace of growth at the end of 2024 and the announcement of a potential fiscal stimulus package set to be the largest since the Covid pandemic.

We believe that **the main asset classes have the potential to deliver positive returns in 2025**. Risk-free money market investments will yield a little less but returns will be positive. On the bond side, we prefer corporate debt on account of its superior yield. Lower rates and global economic growth should be supportive of equity markets.

The implementation of Donald Trump's economic agenda, recent announcements of potential stimulus measures in China, further interest rate cuts, the development of AI, and hopes of a respite on the geopolitical front will support economic activity and capital markets. The 4th quarter earnings released this month will provide us with valuable information on sales and earnings trends, and on the outlook for the remainder of the year.

# 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 increased the exposure of our European mixed asset funds to equity markets. The Eurozone is struggling on the economic front, but we continue to prefer European equity indices. Europe is now emerging from the trough, and we expect industrial activity to rebound.

### UNITED STATES

The US economy is benefiting from Trump's election and our view on US equity markets is positive. However, we shall remain cautious as market valuations are elevated; investors are positioned aggressively amid high appetite for risk.

### EMERGING COUNTRIES

The potential for large-scale fiscal stimulus and a new flurry of rate cuts are likely to boost the Chinese equity market. We are over-exposed to Chinese and Brazilian equities, and to the emerging space as a whole.

## FIXED INCOME

### SOVEREIGN BONDS

Our view is neutral on sovereign bonds, despite the strong rebound posted by US and European sovereign yields in January. Owing to these rising yields, we are gradually shifting back to longer duration bonds.

### CREDIT

We do not believe that spreads will compress any further, but the carry yield remains attractive. We are positive on Investment Grade credit, which we feel is robust and able to withstand different scenarios, and neutral on High Yield credit.

↗ → ↘ Change in view versus previous month.

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

# CONVICTIONS (continued)

## EURO/USD

We believe that the Euro could rebound against the dollar in 2025. We expect the Euro to rise from around 1.03 dollar today to 1.09.

## COMMODITIES

Our view remains neutral on oil, as Brent prices are expected to fall this year. We forecast oil prices of $75 per barrel by the end of the year. We are constructive on gold.

Change in view versus previous month.

Investment team's asset class views.

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