MARCH 2025

NEWSLETTER #26

"Europe Bashing" has turned into "Europe Loving" …. Since the start of the year, investors have returned with a vengeance to the Old Continent, generating ***considerable capital inflows****. However, many are still under-exposed to the region. In our own portfolios,* ***Europe remains at the core of our allocations****, though the recent rise in yields may gradually weigh on valuations in given sectors. We are therefore* ***keeping a close eye on opportunities in the United States****, where entry points are back to more attractive levels.*

David TAIEB, *Chief Investment Officer - Listed Assets*

SUMMARY

Growth

In the first quarter of 2025, **economic activity has been robust in the United States**, improving in China, and recovering in the Eurozone. In 2025, **global GDP growth should be above 3%**. However, the proposed U.S. tariffs could stifle global growth and foster uncertainty in economic forecasts.

Inflation

According to the INSEE's first estimates, **consumer prices only rose 0.8% year-over-year** in February. For the first time since 2021, 12-month inflation in France came in below 1%. In the United States, in January, consumer prices rose 3% over one year, up from 2.9% in December 2024.

Monetary policy

The **ECB lowered its key rates by 25 bp** and opened the door to further cuts in coming months. In the United States, the Fed put its rate cutting cycle on hold pending more news on inflation. In our view, the cycle could start up again at the end of H1 2025.

SUSTAINABLE

The Omnibus draft proposals create uncertainty for companies

JEAN-MARIE PÉAN,
Director - Responsible Finance, Listed Assets

On February 26th this year, the **European Commission unveiled its Omnibus package - a set of proposals meant to streamline some of the EU's key sustainability rules**.

The main amendments would involve **lowering the number of 'in-scope' companies subject to extra-financial reporting requirements** under the CSRD (Corporate Sustainability Reporting Directive), r**educing the scope of corporate accountability in sub-contracting chains**, and revising **possible fines, under the CCSDDD** (Corporate Sustainability Due Diligence Directive).

This proposal would also **reduce the number of companies obliged to report their Taxonomy alignment**; this may also be simplified or lose its mandatory status, in some cases.

As far as the CSRD and taxonomy-alignment are concerned, the number of companies required to disclose extra-financial reporting would drop from 50,000 to 7,000.

SUSTAINABLE (continued)

The Omnibus draft proposals create uncertainty for companies

However, none of these proposals have been adopted yet. The Omnibus package must now **be presented to the European parliament and to the Council to be examined and then adopted**.

While its supporters are keen to emphasise the benefits of lowering the administrative burden for companies, notably for SMEs, others view these changes as a step back for sustainability. In any event, this draft proposal has **put the corporate world under even greater uncertainty**. Some companies may also put the brakes on their transition.

These regulatory changes do not imply that investors are calling into question extra-financial reporting. Investors will continue to pay considerable attention to these disclosures and will maintain a holistic vision of the companies in which they seek to invest.

TREND

Trump's economic policy - a threat to global economic growth?

Donald Trump intends to revise the tariffs applied to 17,000 products imported into the United States from 186 countries. While some countries push for dialogue, others are ready to respond firmly which **may lead to a global trade war** and weaken economic growth in the months to come.

These announcements tend to confirm the American President's strategy: **negotiate better trade deals, encourage foreign companies to reshore production in the U.S. and find new sources of income.**

This trade war atmosphere has generated **uncertainty for U.S. consumers**. Indeed, retail sales in the U.S. have fallen sharply in January and household confidence took a nose-dive in February. Donald Trump has also created **insecurity for U.S. companies**, which **could slow the investment momentum** and weigh on growth.

The earnings capacity of these companies has not waned until now, as proven by the most recent quarterly earnings. However, Donald Trump's actions are **starting to cause concern for the country's capital markets**, where **signs of weakness are piling up**. This could **trigger a stock market correction**.

TREND (continued)

Trump’s economic policy - a threat to global economic growth?

In **Europe**, **equity markets have rallied since the beginning of the year**, lifted by hopes of a brighter economic environment. Consumer spending has recovered; the ECB is pursuing its rate cutting cycle, and investments should rebound.

There are also **positive catalysts**: a possible ceasefire in Ukraine - and lower energy prices, the easing of European rules in several sectors to support competitiveness, and the new pro-growth programme in Germany.

Nevertheless, **if the U.S. does impose higher tariffs on products imported from the EU, European growth may be slower to rebound**. If Trump goes ahead with his threat to raise tariffs on European imported goods by 25%, the direct potential cost would be close to 100 billion Euros, or 0.7% of the Eurozone’s GDP.

Furthermore, uncertainty may weigh heavily on business confidence and stifle the investment momentum. Risks are tilted to the downside for the economy in Europe, where the **industrial sector is already ailing**, and **demand is struggling to achieve a durable rebound**.

In this environment, we have adopted a **cautious stance in our investments by lowering the over-exposure to equity markets initiated at the beginning 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

European stock markets have rallied since the beginning of the year with market indices hitting historic highs. In this environment, we have adopted a cautious stance, switching from overexposed to neutral on European equities.

UNITED STATES

Stock market indices have risen sharply on account of the U.S. economy's strength. U.S. companies continue to display strong earnings potential, as demonstrated by the recent quarterly earnings publications. We have therefore maintained a positive view on U.S. equities.

EMERGING COUNTRIES

We remain exposed to China and have taken profits on our exposure to Brazilian equities in local currencies, after their strong run (over 17%) year-to-date. Our view remains neutral on India.

FIXED INCOME

SOVEREIGN BONDS

Bond yields are rising, and markets are expecting rates to remain generally high. We are neutral on U.S. government and emerging country bonds. We have switched from overexposed to neutral on European bonds.

CREDIT

We are positive on Investment Grade credit, which appears as robust as ever, and have kept our exposure to emerging credit issued in dollars. Meanwhile, we have maintained our neutral view on High-Yield bonds.

↗ → ↘ Change in view versus previous month.

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

CONVICTIONS (continued)

EURO/USD

The dollar could settle at high levels for longer than planned; however, we are keeping our short position on the greenback relative to the Euro.

COMMODITIES

Gold continued to soar towards $2,890 per ounce, reaching record highs, as central banks step up their purchases and demand for this type of safe haven remains elevated. We remain positive on gold and neutral on oil.

Change in view versus previous month.

Investment team's asset class views.

Sienna
INVESTMENT MANAGERS

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