APRIL 2024

NEWSLETTER #18

***The global economy has remained highly resilient** and is not showing signs of slowing down, notably in the United States, where massive public spending is feeding corporate order books. Meanwhile, **disinflation has continued - but at a slower pace than anticipated following a price uptick in services and real estate.** Despite this environment, central banks seem determined to lower their key rates from June in order to normalise lending conditions; however, if this scenario is called into question by economic data, markets may become more volatile.*

David TAIEB, *Chief Investment Officer - Listed Assets*

SUMMARY

Growth

The Eurozone performed better than expected. Initially estimated at 48.9, the PMI composite index was revised upward to 49.2 in February, 1.3 point higher than it was in January. This positive trend was also observed in the United States, where the composite PMI was expected at 51.4, but came in at 52.5. On a global scale, the PMI composite index rose in February to 52.1, its highest point since June 2023.

Inflation

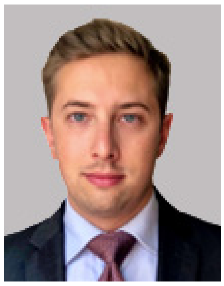
While global inflation continued to ebb, the pace of the retreat has slowed, with inflation readings at 4 % year-over-year in February. **In the Eurozone,** one-year inflation stood at 2.6 %, down from 2.8 % in January, though prices in the services industries picked up a little (+ 0.8 % during the month and + 3.9 % over 12 months).

Monetary policy

In February, sticky inflation in Europe and in the United States, after a sharp acceleration in January, **does not support the idea of a short-term pivot towards monetary easing.** While the ECB has opened the door to rate cuts in June, **the Fed has stated it would wait patiently before lowering its guard.**

SUSTAINABLE

Sienna and the challenge of sustainable finance



Igor IGNATIEFF,
ESG Analyst
Listed Assets

Sienna Investment Managers (Sienna IM) r**ecently announced it has signed up to the Science Based Targets initiative (SBTi)** in a non-profit partnership between the United Nations' Global Compact, the World Resources Institute, the WWF, and the Carbon Disclosure Project (CDP).

This pact will **encourage companies to set science-based targets for cutting greenhouse gas emissions**, with the view to fighting climate change and limiting global warming to 1.5°C by 2050.

The SBTi has seen a considerable increase in the number of corporate and financial institutions setting science-based targets. Created in 2015 under the COP21, this initiative has brought together 34 % of the world's total market capitalisation according to estimates made at the end of 2022.

Sienna IM is therefore embarking **on a new stage in its journey to net-zero** (bringing emissions as close to 0 as possible). Indeed, the Group has pledged to set short-term climate targets **by 2025 aligned with limiting the global temperature rise to 1.5°C** and compliant with the latest climate research. **These targets will cover both our direct emissions** (heating our offices, company-owned vehicles...) and **our investments.**

SUSTAINABLE (continued)

Sienna and the challenge of sustainable finance

Through this pledge, we have set a mid-term plan of action for all areas of expertise within the Group, involving notably :

- the management and use of data that will prove crucial to steer us towards our objectives ;
- an integrated decarbonisation momentum across our firm's operations ;
- revisions to our exclusion policy, methodology, and decision-making processes ;
- participation in engagement initiatives, in order to influence the convergence of our economy towards a pathway aligned with the Paris Agreement.

TREND

The chaotic path to disinflation

The good news is that global inflation has continued to abate, retreating to 4 % year-over-year in February, down from - 7 % last year.

Nevertheless, **the speed of the disinflation process appears to be running out of steam.** The reasons? The end of base effects, but more importantly, the resilience of demand, persistently high pressure on wages, renewed tension in the Red Sea and the recent increase in oil prices**.**

In the United States, the consumer price index rose by 0.4 % in February, its highest increase in 5 months. Over one-year, global inflation came in at 3.2 %, above expectations of 3.1 %.

In the Eurozone, the consumer price index rose by 0.6 % . The core index (excluding energy, food, tobacco and alcohol) was up 0.7 % in January and 3.1 % over 12 months, slightly above expectations (+ 2.9 %).

The most worrying factor is the trend within services, where prices were up by a further 0.8 % in January, settling at + 3.9 % over one year.

TREND (continued)

The chaotic path to disinflation

The publication of the global PMI composite index* in February offers some insights into future price trends. Indeed, the components of this index reveal that selling prices remain under considerable pressure in both the manufacturing and services sectors. Furthermore, inflationary pressures are at a 3 -month high.

The rising production costs are being passed on to selling prices, meaning that prices paid and invoiced by industrials have posted their strongest monthly rise in 8 months.

In February, sticky inflation in Europe and in the United States, after a sharp acceleration in January, **does not support the idea of a short-term pivot towards monetary easing**, as the 2 % inflation target set by central banks has still not been achieved. Consequently, while optimism had prevailed with investors, **it seems that the ECB and the Fed will only cut their key rates three of four times in 2024.**

Investors' expectations of a substantial and **imminent monetary easing come across as overly optimistic considering the resilience of inflation.** If central banks choose not to lower their key rates this year and maintain a restrictive monetary policy, **their decision could weigh more heavily than planned on economic growth in 2024 and on the performance of capital markets.**

**The PMI index (Purchasing Manager's Index) is an indicator reflecting the conditions and economic outlook of a given sector.*

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 continue to prefer the European equity market over the US. The risk premium is much higher in the Eurozone than it is in the US. Our view on the asset class has nevertheless shifted from under-exposed to neutral.

UNITED STATES

Investors are upbeat on the US equity market, which is supported by a rather “hot” tech innovation industry. However, in terms of valuations, US equities appear less attractive than European counterparts. Our view therefore remains neutral on the US equity market.

EMERGING COUNTRIES

Both dividends and equity markets remained stable in emerging countries. We are neutral on Brazilian and Indian equities and over-exposed to the Chinese market.

FIXED INCOME

SOVEREIGN BONDS

We believe that sovereign yields are unlikely to increase any further now that the interest rate hiking cycle is over. We remain neutral on all sovereign bond markets.

CREDIT

We remain overexposed to European Investment Grade (IG) credit and neutral on High-Yield (HY) credit, both in Europe and in the US.

Change in view versus previous month.

Investment team’s asset class views.

CONVICTIONS (continued)

EURO/USD

We continue to believe that the Euro offers re-rating potential relative to the US dollar, particularly as the depreciation of the dollar in March could continue.

COMMODITIES

Demand for oil is expected to reach a historical peak in 2024. New factors have appeared on the geopolitical front, which we feel, imply a further rise for Brent prices to 85 or even 90 dollars/bbl this summer. Our view remains neutral on the asset class, as it is on gold.

Change in view versus previous month.

Investment team's asset class views.

Sienna
INVESTMENT MANAGERS

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.

WRITTEN ON APRIL 9, 2024