Investment Insights

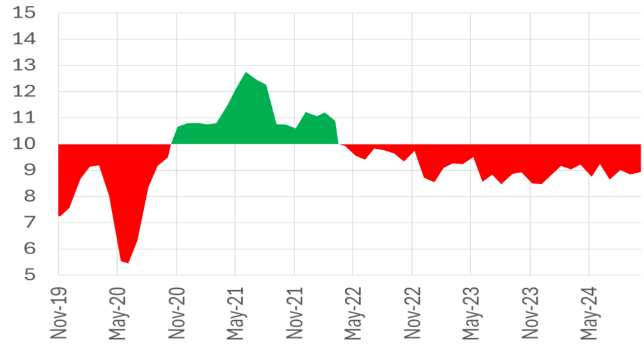
October 2024

MACRO FOCUS: ARE THE US PROPPING UP THE GLOBAL ECONOMY?

Cyriaque DAILLAND

The overall Sanso Macro Screening (SMS)1 model score held steady this month at 8.9. This stability is reflected in both the level and trend components. Regarding individual factors, similar to last month, the overall dynamic is neutral, with the exception of consumption, which increased, pushing its score above 10. The composite global PMI saw a slight decrease (52 from 52.8). This shift is not particularly worrisome as long as the score remains above 50, indicating expansion.

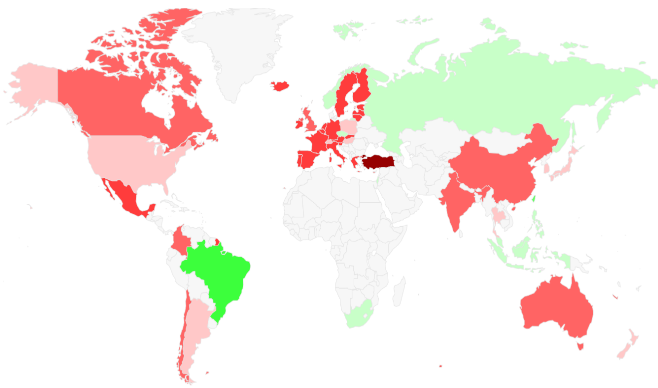
Sanso Macro Screening (SMS) Overall Score



Source : Sanso Longchamp AM

The U.S. score rose this month from 8.1 to 9.2. Recent quarters have seen significant volatility in U.S. economic data, making analysis complex. However, a more favorable trend appears to be emerging since May, with a notable improvement in consumption. China's score remains stable at 8.7. Announcements from authorities are expected to lead to improvements. In the Eurozone, the score fell by 0.5 to 7.7. With growth expected at only +0.7% in 2024, the Eurozone again appears to be a weak spot.

Sanso Macro Screeninng (SMS) Heatmap

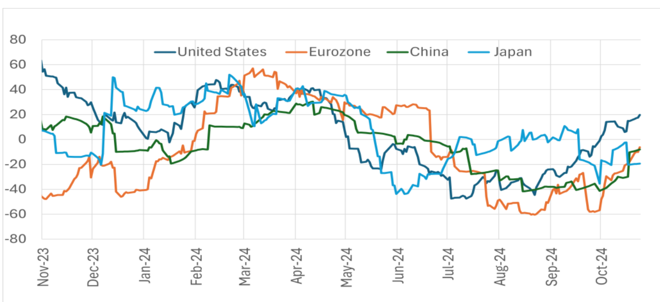


Source : Sanso Longchamp AM,

Economic Surprise Indicators measure the difference between expectations and actual data releases. Citibank publishes these indicators for major economic regions. **Recently, the US has positively surprised economists**, leading to upward revisions in 2024 US growth forecasts over the past few months. Economic surprises in the Eurozone and China have also been improving in recent weeks. Historically, when this aligns with the US it typically leads economic trends.

Featured Indicator

Economic Surprise Indicator



Source : Sanso Longchamp AM, Citi

The likelihood of the median scenario (moderate global growth) remains stable at 60%. While leading indicators aren't overly positive, they are offset by Chinese authorities' announcements to support economic activity. Consequently, the probability of a negative scenario (a real slowdown potentially turning into recession) is also stable at 35%. The US elections and the Middle Eastern conflict are two exogenous factors to monitor. The positive scenario (strong rebound) shows a 5% probability.

[1] The Sanso Macro Screening model analyzes 1,200 economic statistics across approximately 30 countries. This model provides monthly tracking of global economic conditions through analysis of key nations. A scoring system, ranging from 0 to 20, aggregates the statistically grouped data. Six factors are analyzed, considering both their current level and trend.

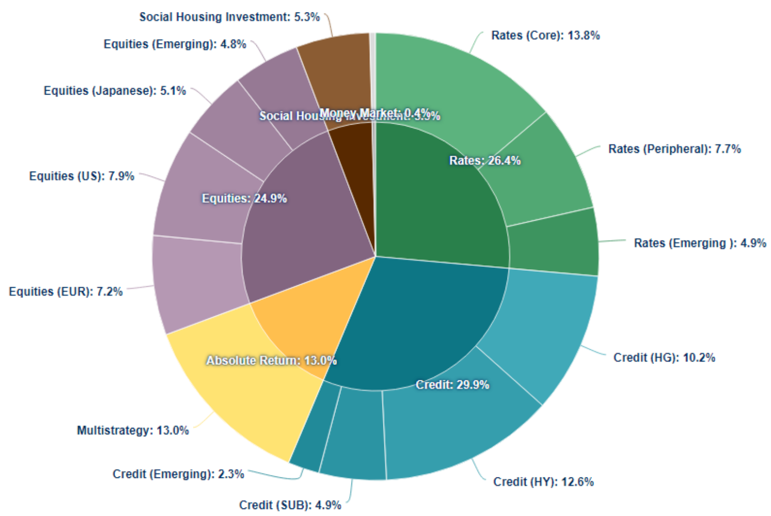
ALLOCATION FOCUS: CHINA – GAME CHANGING ANNOUNCEMENTS?

Cyriaque DAILLAND

In recent weeks, Chinese authorities announced numerous measures to bolster economic activity. These long-awaited actions took investors by surprise, as nothing on the official agenda suggested their imminent arrival. This surprise explains the strong market reaction (+39% on the MSCI China). While significant, the program's size remains uncertain at the time of writing. Beyond its scale, this plan is unique for its multi-dimensional approach, encompassing fiscal, monetary, real estate, and financial market policies. Chinese authorities have taken the unusual step of addressing various economic weaknesses simultaneously. **From a strategic investment perspective, greater clarity is needed before shifting our emerging market equities position from neutral to positive. However, once the outlook becomes clearer, we anticipate implementing a constructive position in the portfolio**

Holdings as of 10/21/2024	Negative Outlook		NEUTRAL	Positive Outlook		CHANGE	STRATEGY
	- -	-	=	+	+ +		
ASSET CLASSES							
		Money Mkt				⇘	
			Rates			⇔	
				Credit		⇗	
			Equity			⇔	
RATES							
			Core			⇔	USA (10Y)
			Peripheral			⇔	Greece/ Italy
			Emg Local			⇔	
			Emg Hard			⇔	
CREDIT							
			Invest. Grade			⇔	
				High Yield		⇔	Crossover, Eurozone
				Subordinated		⇔	Europe Financials
			Emerging Mkt			⇔	LatAm
EQUITY							
				Europe		⇔	
			USA			⇔	
			Japan			⇔	
			Emerging Mkt			⇔	
FX							
			USD			⇔	
				JPY		⇔	
			G10			⇔	
			Emerging Mkt			⇔	

This allocation is implemented in the Sanso Convictions ESG fund. The portfolio is designed with a **flexible and diversified approach, systematically integrating extra-financial criteria.**



MARKET FOCUS : GEOPOLITICS, OIL AND FINANCIAL MARKETS

Michel MENIGOZ & François FONTAINE

For over 50 years, oil has been a key variable in financial markets due to the global reliance on fossil fuels. While supply and demand drive prices, history reveals this market can often be influenced by unexpected news or shocks. Here's a look at the past half-century:

In 1973, OPEC's oil embargo against nations supporting Israel during the Yom Kippur War sent prices soaring from $3 to $12 per barrel within weeks, triggering inflation and recession. Stock markets reacted sharply, with the US market plunging nearly 50%, highlighting the impact of "black gold" on the global economy.

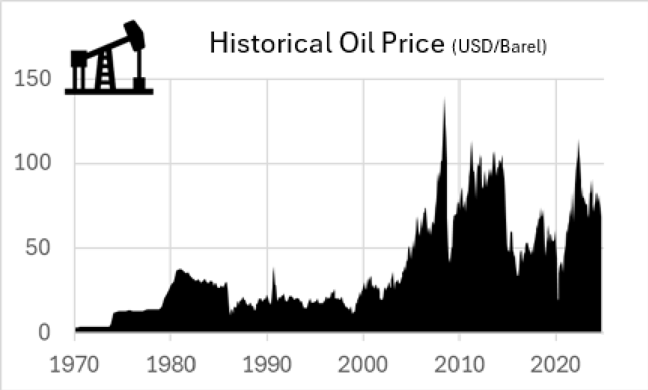
The late 1970s saw another shock stemming from the Iranian Revolution, disrupting global oil supply. Prices reached $40 per barrel, reigniting inflation that had barely recovered from the first shock and persisting until the mid-1980s. However, despite significant economic impact, stock market reactions were more muted.

During the 1980s, high prices spurred countries like the US to increase domestic oil production. Saudi Arabia and other OPEC members flooded the market, creating a glut that drove prices down to around $10 by the late 1980s.

Iraq's invasion of Kuwait in the early 1990s briefly pushed prices from $15 to $41. Yet, the impact on inflation and the economy remained limited. Stock markets experienced a sharp but temporary correction, recovering quickly after Kuwait's liberation.

The 2000s was an era of skyrocketing oil prices driven by various factors, including the US-led war on terror in Afghanistan and Iraq, and surging demand from China and India. Prices peaked at over $140 in 2008. The subsequent financial crisis plunged economies into recession, causing prices to plummet below $40.

While oil prices remained relatively high in the early 2010s due to tensions in several producing countries (Libya, Egypt, Syria, Iran), the decade marked a turning point in the oil industry with the emergence of US shale oil, creating new geopolitical balances. This new technology allowed the United States to become self-sufficient and reduced global dependence on OPEC. The resulting increase in supply contributed to a drop in prices starting in 2014, falling below $30 per barrel in 2016.



To cope with shale competition, OPEC formed an alliance with other producers, including Russia, to manage supply and stabilize prices. This agreement kept oil prices within a relatively stable range.

More recently, the COVID-19 pandemic caused a sharp drop in oil demand due to global lockdowns, even leading to crude briefly trading in negative territory in April 2020. Then, Russia's invasion of Ukraine in 2022 triggered a new global energy crisis. With Russia being one of the largest oil exporters, international sanctions and supply disruptions pushed oil prices up, reaching over $120 per barrel in March 2022.

Today, the push for renewable energy and carbon emission reduction policies has added a new dimension to oil geopolitics. Investments in fossil fuels are becoming scarcer, while traditional oil producers must adapt to a new energy era.

In conclusion, we believe that increased competition among oil-producing countries, coupled with global climate policies and the growth of renewable energy sources, should lead to lower volatility in oil prices. It's worth noting that the recent tensions between Israel and its neighbors had minimal impact on both oil prices and financial markets.

ESG FOCUS: CARBON BUDGETS AND FOSSIL FUEL RESERVES

Edmond SCHAFF & Yaël LE SOLLIEC

As explained in our March ESG focus, a company's greenhouse gas emissions are measured using the Greenhouse Gas Protocol (GHG Protocol), which distinguishes between three scopes:

Scope 1 covers a company's direct emissions, such as those from its vehicle fleet or the use of fossil fuels in its factories.

Scope 2 covers emissions from purchased electricity and heat, representing a portion of emissions linked to the company's direct suppliers.

Scope 3 encompasses all other emissions linked to the company's value chain and product use, typically representing 90% of a company's emissions, although this varies significantly by sector.

This data provides a snapshot of a company's current emissions and its historical ability to reduce them. However, it doesn't consider future emission reduction targets. Therefore, most ESG rating agencies now offer services to assess companies' alignment with the Paris Climate Agreement or their temperature trajectory.

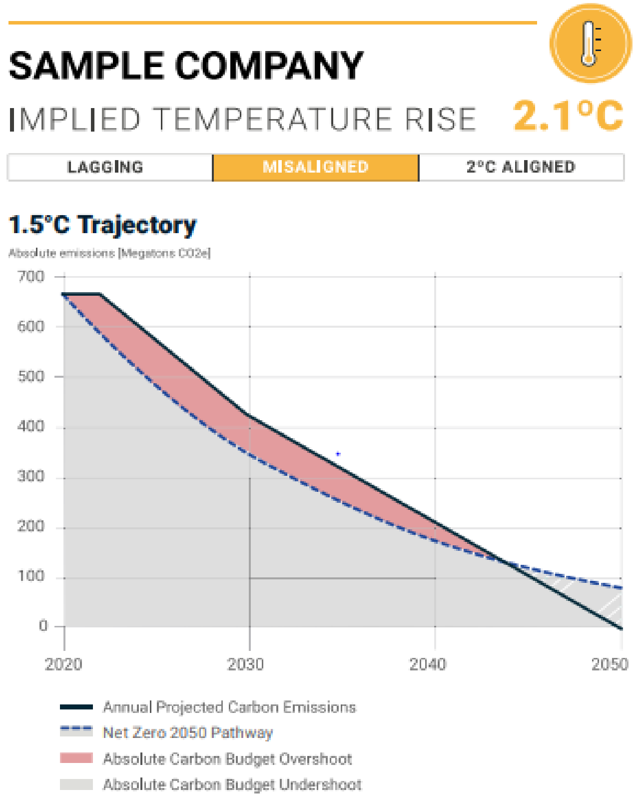
For instance, an ESG rating agency might indicate that company A is on a 1.7° trajectory, while company B is on a 3° trajectory. This means that if the entire economy's emissions followed the same path as company A's, global warming would be limited to 1.7°. However, if company B's trajectory were followed, warming would reach 3°.

To calculate this information, credit rating agencies use two types of data:

- Proprietary company data based on past emissions and reduction targets. This data helps project the company's future emissions over the coming years and decades, assuming adherence to its commitments.

- Data from transition models like those of the NGFS (Network for Greening the Financial System), which determine sector- and country-specific emission levels consistent with various warming scenarios. These models help establish a company's carbon budget for achieving a given warming target.

By combining these two types of information, rating agencies can calculate a company's climate trajectory, taking into account its current emission levels, its targets, and the specific characteristics of its business.



Source : MSCI

This information is valuable for investors as it can be used to:

Incorporate the degree of alignment of companies with international climate agreements into security selection,

Determine the climate trajectory of a portfolio by aggregating data available at the individual company le-

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