Investment Insight
November 2024

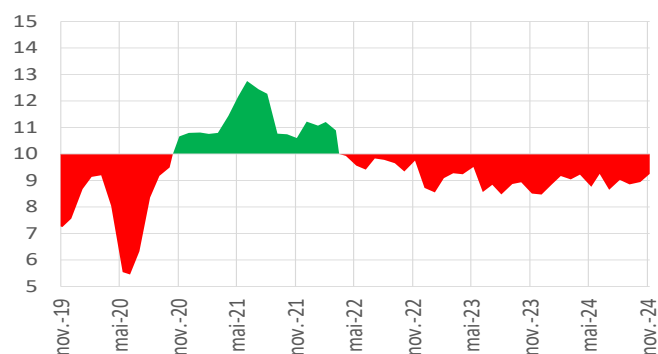## MACRO FOCUS: GLOBAL ECONOMY, GAINING MOMENTUM
by Cyriaque DAILLAND

The overall score of the Sanso Macro Screening (SMS) model improved this month, rising from 8.9 to 9.3. This improvement is seen in both the **Level** and **Trend** components, with the latter moving back above the threshold of 10. In terms of factors, the dynamic is generally neutral with the exception of the **Leading Indicators** which saw a significant increase over the period. The global composite **PMI** experienced a slight rebound (52.3 i/o 51.9) with an improvement in all its components with the notable exception of the **Employment**. This dynamic supports **our scenario of moderate global growth in 2025.**

Sanso Macro Screening (SMS) Overall Score

Source : Sanso Longchamp AM, Bloomberg

China's score increased this month from 8.7 to 10.1. This significant rebound is mainly due to the **Trend** component, confirming that the Chinese economy's momentum is currently improving. The current stimulus plan is ambitious in both size and scope. However, its positive effect should be partially offset by the tariffs that D. Trump intends to impose on China. In the Eurozone, the overall score also improved, mainly thanks to the activity factor. The scores of the United States and Japan decreased slightly over the month.

Sanso Macro Screeninng (SMS) Heatmap

Source : Sanso Longchamp AM, Bloomberg

With the exception of the Bank of Japan, developed-world central banks are relatively confident about the continued normalization of inflation. This analysis justifies policy rate cuts, which is a trend likely to continue in 2025. However, for the last few months, core inflation dynamics seems to have reached a plateau rather than normalize. This creates a gap between reality and the central bank scenario. **In our view, the main risk in 2025 remains inflation plateauing or even a rebounding slightly.**
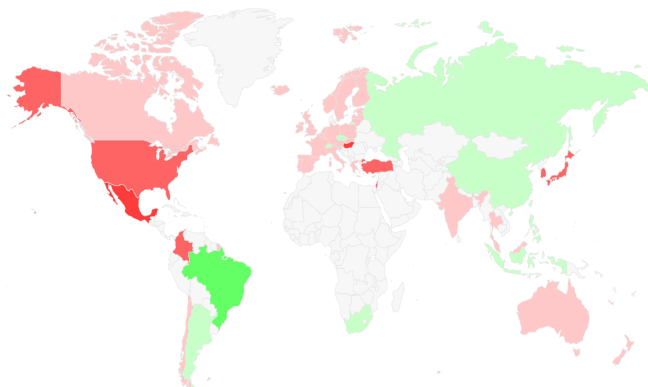
Featured Indicator

Evolution de l'inflation « core » des principales économies

Source : Sanso Longchamp AM, Bloomberg

The likelihood of the median scenario (moderate global growth) **has increased from 60% to 65%**. The decisive victory of D.J Trump removes the risk of a chaotic transition of power. In addition, leading indicators continue to send signals consistent with global growth around 3%. In this context, the probability of a negative scenario (a real slowdown that could turn into a recession) **decreases from 35% to 30%**. The main risk remains the continuation of the normalization of inflation. The positive scenario (strong rebound) has a probability of 5%.

[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: IN US DOLLAR, WE TRUST

by Cyriaque DAILLAND

The US election has triggered several significant movements in the financial markets. The US Dollar, along with Small Cap and Corporate Credit, is among the asset class that experienced a significant rise following the of the victory of DJ Trump. For the US currency, this movement may appear counterintuitive given that the president-elect has had changing views on where the US Dollar should be. Overall the economic agenda pushes a series of measures favorable to the dollar including inflationary policy that will limit the US central bank's ability to lower key rate in 2025 and significant fiscal support to boost the economy, . Moreover, the investor consensus is to buy the US dollar, particularly against the euro. Thus, apart from this technical element, fundamentals justify a long position in the US dollar in the context of a strategic allocation.

Holdings as of 11/25/2024	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.**
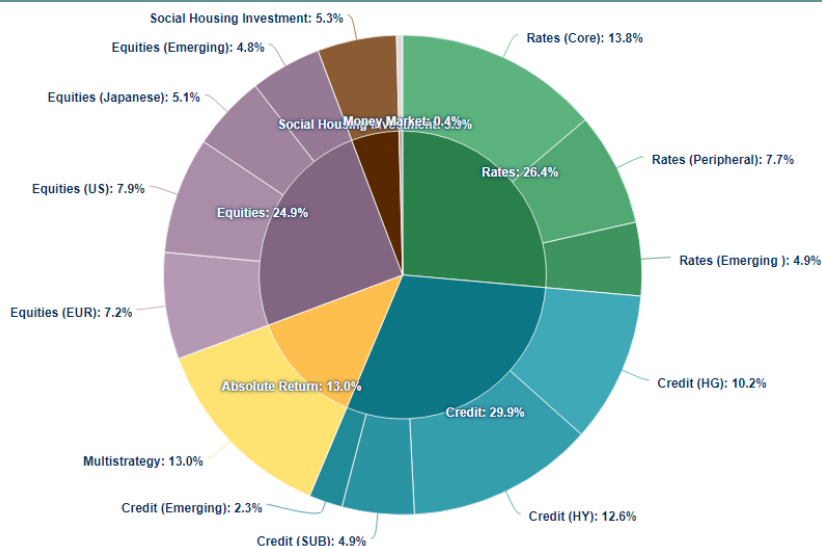
MARKET FOCUS: STORMY WEATHER FOR CLIMATE ? NOT SO SURE!

by Michel MENIGOZ & François FONTAINE

Despite nearly half a dozen legal proceedings against him, multiple accusations of sexual assault, his murky ties with Vladimir Putin's Russia, his legendary vulgarity, and the risks he poses to American democracy, Donald J. Trump has been re-elected as the 47th President of the United States, eight years after his first election.

Unlike in 2016, this victory is clear-cut and indisputable, as the billionaire also won the popular vote—something no Republican had achieved since George W. Bush in 2004. And finally, a small ironic detail considering his relationship with women: DJ Trump secured both of his terms by defeating female opponents—Hillary Clinton in 2016 and Kamala Harris this year."

The agenda for the new term is clear, and the rally cry 'Make America Great Again' will translate into strengthened protectionism with a generalized tax on U.S. imports and tariffs on Chinese goods raised to 60%.

Additionally, tax pressure will be eased for both individuals and businesses through multiple measures, including the permanent extension of the 2017 tax cuts set to expire in 2025, the elimination of income tax on pensions, the end of taxation for American citizens living overseas, tax exemptions for overtime pay and tips, and a corporate tax rate of 15% for companies manufacturing in the United States.

Enhanced protectionism will also extend to immigration. Beyond militarizing the Mexican border, Donald Trump plans to establish detention camps for undocumented immigrants, streamline deportations, and permanently abolish birthright citizenship.

Finally, he also aims to dismantle the 'Deep State' by laying off a significant number of federal employees, reducing funding for the Department of Justice and the FBI, and creating a 'Department of Government Efficiency,' which he plans to place under the leadership of his prominent campaign supporter, Elon Musk.

A unapologetic climate skeptic, the American president makes no secret of his absolute rejection of environmentalism. He withdrew the U.S. from the Paris Climate Agreement in 2017 and rolled back numerous environmental regulations established by his predecessor, Barack Obama. This time, his target is the Inflation Reduction Act (IRA), the expansive program supporting the energy transition championed by Joe Biden. Trump intends to dismantle what he calls this "new green scam," focusing particularly on eliminating subsidies for renewable energy production.

Conversely, he plans to massively ramp up gas and oil production ("Drill, Baby, Drill…") while continuing to burn coal, the most polluting of all fossil fuels.

But will Trump have a free hand to reverse this trajectory? That remains uncertain.

In reality, it is unlikely that Trump will be able to halt America's energy transition, which is well underway thanks to the highly competitive costs of renewables. With nearly $400 billion already invested, over 300,000 jobs created, and the majority of the funds allocated to Republican red states, the new administration will likely find it difficult to roll back the IRA.

Moreover, by entrusting Elon Musk with a role in reducing public spending, Trump is relying on someone directly involved in clean energy. Cutting funding for the energy transition would not favor Musk's companies or the sector as a whole.

Stock markets have not shown any particularly positive reaction regarding traditional polluters either. The industrial and energy sectors have remained steady, while investors have leaned more toward betting on deregulation in financials and cryptocurrency-related stocks.

> The strategy implemented by Sanso Smart Climate remains highly relevant, as it is based on the logic that climate change is already a major financial risk that must be addressed today, regardless of short-term political uncertainties. The fund diversified profile and disciplined risk management will help mitigate impact during adverse phases.

ISR FOCUS: WHERE ARE COMPANIES WITH THEIR IMPACTS ON NATURE?

by Edmond SCHAFF & Yaël LE SOLLIEC

Nature Action 100 is a global investor-led initiative to encourage businesses to take action to reverse the loss of nature and biodiversity.

Investors engage with 100 major companies operating in sectors considered critical to halting and reversing biodiversity loss by 2030.

The goup released its first benchmark that assesses the progress of these 100 companies across six investor expectations: Ambition, Assessment, Objectives, Implementation, Governance and Engagement, based on data publicly disclosed by the companies.

This benchmark helps investors in their discussions with companies and provides a snapshot of Nature-related information disclosures.

Each of the six indicators is subdivided into sub-indicators which are in turn broken down into separate metrics.

Initial assessments of the benchmark show that most companies are still at the beginning of their efforts to manage their nature-related impacts and dependencies.

Figure 1: Nature Action 100 Company Benchmark Results by Indicator
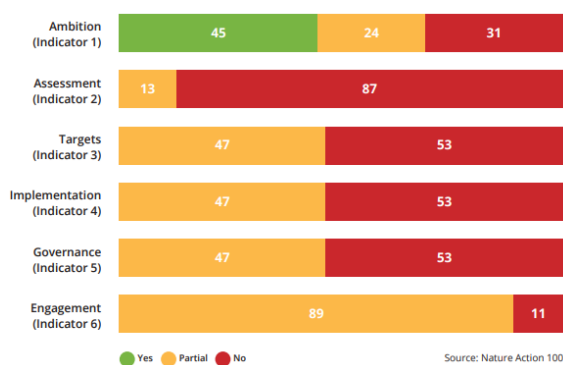
On the bright side, a majority of companies are well positioned on the Ambition indicator. In fact, more than two thirds of companies have made commitments to protect Nature and among them, 45 apply these commitments to their entire value chain.

The results on the Targets, Implementation and Governance indicators are similar with almost half of companies that publish incomplete information on indicators.

On the Engagement, 89 companies partially respond to the evaluation of the indicators. Their efforts are currently focused on their upstream value chain where nearly 40 companies say they have defined nature-related criteria.

On the other hand, no company discloses commitments aimed at aligning its lobbying activities with the objectives of the Biodiversity Plan.

The benchmark results show that the Evaluation indicator is the one where companies are least advanced.

Figure 3. Company Progress on Indicator 2: Assessment
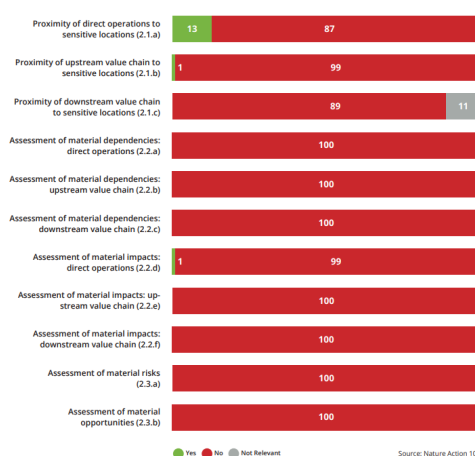
Only 13 companies provided satisfactory information on one of the metrics evaluated. Nature Action 100, highlights that some use a dual materiality approach to identify their material impacts and dependencies linked to nature.

However, very few companies disclose information about how they quantify these impacts and dependencies or the specific locations where these impacts occur.

The lack of comprehensive action on all six indicators suggests that the majority of businesses are not adequately managing their Nature-related dependencies, impacts, risks and opportunities. This entails both financial and reputational risks but also significant room for for improvement and therefore an important role to play for investors.

For these reasons, Sanso Longchamp AM is among the investors who engage and dialogue with the companies targeted by the initiative.

Letter written on November 26, 2024