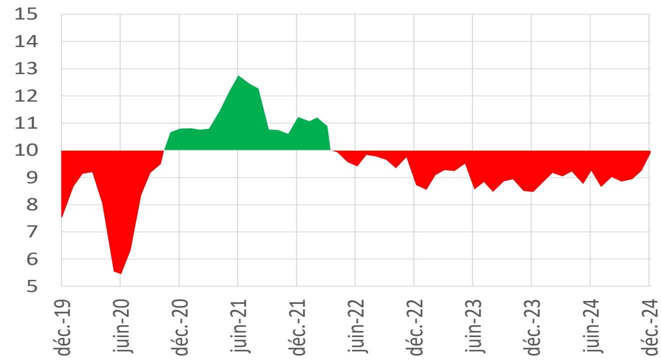
Investment Insight
December 2024

MACRO FOCUS: THE FAVORABLE MOMENTUM IS CONFIRMED

by Cyriaque DAILLAND

The overall rating of the Sanso Macro Screening (SMS)[1] model improved significantly over the month. It rose from 9.3 to 9.9. The improvement was mainly concentrated on the trend component of the score. This rose from 10.0 to 11.0. Given this momentum, global growth should stabilize in the first half of the year, perhaps even accelerating slightly. In terms of factors, the positive momentum is broadly shared. For its part, the composite global PMI rose only marginally (52.4 instead of 52.3), seeming to validate a plateau scenario for global activity rather than a rebound.

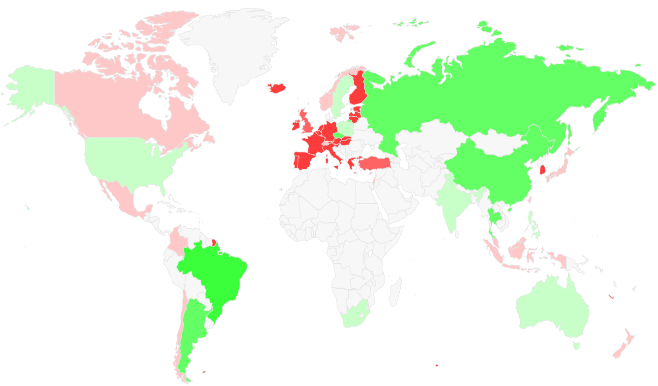
Overall Rating of the Sanso Macro Screening (SMS)



Source : Sanso Longchamp AM, Bloomberg

The rating for the United States rose sharply over the month, from 8.3 to 10.5. In terms of factors, progress was concentrated on leading indicators, consumption and real estate. D. Trump's election is taken as a positive signal by Americans in terms of activity. Paradoxically, the risk today is the return of inflationary problems linked to economic acceleration. For its part, China confirms the improvement in its economy, with its rating rising from 10.1 to 11.3. In the Eurozone, the overall rating deteriorated sharply from 9.1 to 7.4, with a drop in the activity factor in particular.

World Map of the Sanso Macro Screeninng (SMS)

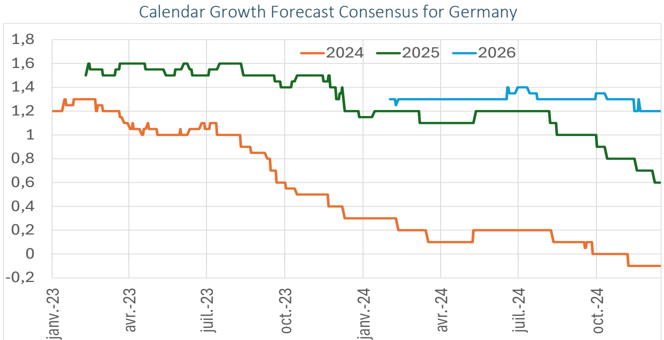


Source : Sanso Longchamp AM, Bloomberg

In ten years, Germany has gone from model pupil to dunce. Growth has been disappointing for several years, and the outlook remains mediocre. The historic German economic model, based on industry using cheap Russian energy to export to China, appears outdated. **Germany, with a debt-to-GDP ratio of 66%, has the means to invest massively in developing its economic model.** Elections in February 2025 could mark a paradigm shift... real good news for Germany and the Eurozone.

The chart of the Month

Calendar Growth Forecast Consensus for Germany



Source : Sanso Longchamp AM, Bloomberg

The probability of the median scenario (moderate global growth) has risen from 65% to 70%. The Chinese authorities' increasingly clear determination to maintain growth at around 5% is excellent news for global activity. Moreover, leading indicators continue to send out signals of stability. In this context, the probability of a negative scenario (real slowdown) drops from 30% to 25%. The main risk remains the continued normalization of inflation. The positive scenario (significant rebound) has a probability of 5%.

1 The Sanso Macro Screening model covers 1,200 economic statistical series for some thirty countries. The model enables monthly monitoring of the global economic situation through analysis of the main countries. The rating system, ranging from 0 to 20, is an aggregation of statistically grouped data. Six factors are analyzed by level and trend.

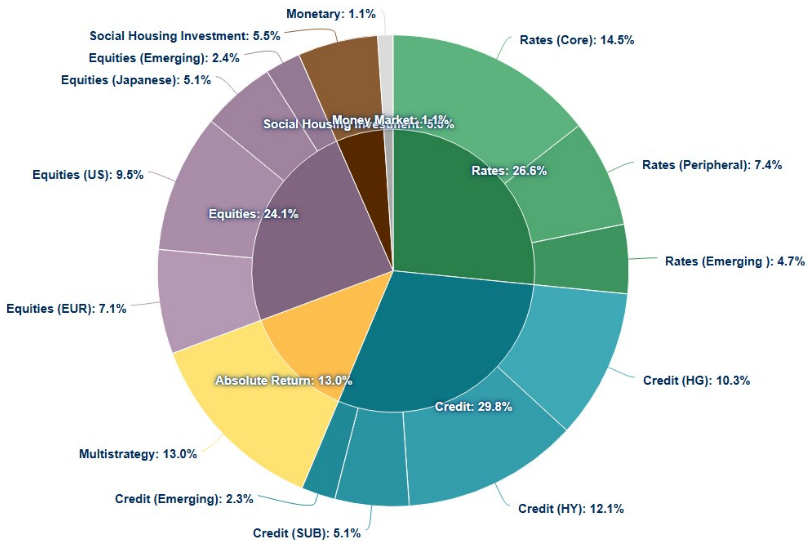
FOCUS ALLOCATION: 2024 RESULTS FOR DIVERSIFIED MANAGEMENT

by Cyriaque DAILLAND

After a promising 2023, diversified management confirmed its revival in 2024. This approach benefited primarily from the excellent performance of equity markets, particularly in the United States. Although there were a few periods of stress (April, August, October), 2024 was a buoyant year overall for this asset class. During volatility spikes, bond assets played their diversification role. Our preferred credit asset classes (financial bonds, high-yield corporate bonds, etc.) returned around 10% over the year, with limited correlation with equities. Sovereign bonds performed modestly in 2024, but also added a diversifying element to an allocation. **For 2025, we remain convinced that diversified management will once again confirm its appeal for investors focused on the risk/return trade-off.**

Positions on 16/12/2024	Negative		Neutral	Positive		Evolutions	Strategies
	- -	-	=	+	+ +		
Asset Classes							
		Monetary				⇔	
			Bonds			⇔	
				Credit		⇔	
			Equities			⇔	
BONDS							
			Core			⇔	United States (10
			Peripheral			⇔	Greece and Italy
			Emg Local			⇔	
			Emg Hard			⇔	
CREDIT							
			Invest. Grade			⇔	
				High Yield		⇔	Cross Over, Euro-
				Subordinated		⇔	European finan-cials
			Emerging Markets			⇔	Latin America
EQUITIES							
			Europe			⇔	
				United States		⬀	
			Japon			⇔	
			Emerging Markets			⇔	
CURRENCIES vs EUR							
				USD		⇔	
				JPY		⇔	
			G10			⇔	
			Emerging Markets			⇔	

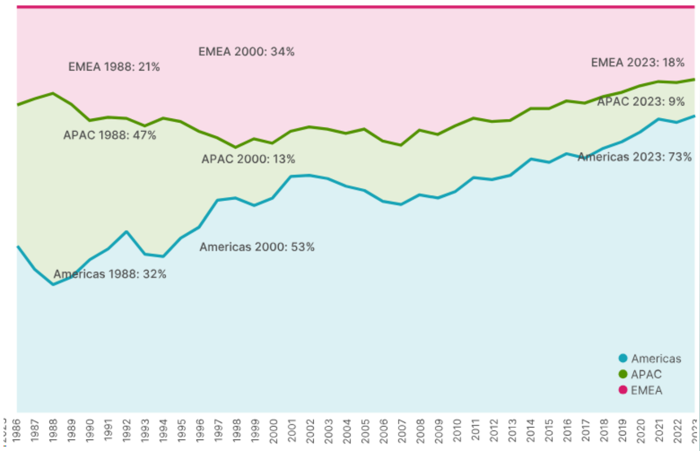
This allocation is implemented in the **Sanso Convictions ESG** fund. The portfolio is built to respond to a flexible **and diversified approach with a systematic consideration of extra-financial criteria.**



MARKET FOCUS: SHOULD WE STILL BELIEVE IN EUROPOEAN EQUITIES?

by Michel MENIGOZ and François FONTAINE

For several years now, the performance gap between European and US equities has been widening, and the relative importance of European markets in the global financial landscape has been steadily declining.



From an almost balanced situation between the market capitalizations of the major geographical zones at the end of the 80s, we have reached a situation in 2023 where the North American equity market represents more than three-quarters of the world market. The phenomenon is accelerating, and by 2024, this same proportion has risen by 4 points to 77% (measured at the end of November). At the same time, European and Asian markets continue to be marginalized in the eyes of international investors.

Clearly, structural factors are at the root of this marginalization. Firstly, Europe's regulatory and fiscal framework is perceived as less favorable to investment and corporate growth than that of the United States. Secondly, economic and political fragmentation among EU member countries creates internal disparities that weaken the bloc as a whole. Finally, the lack of synergy between European stock exchanges limits their attractiveness in the face of Wall Street, which remains the world's dominant financial center.

This marginalization of European equities has implications at several levels. For investors, it implies a more complex diversification, exacerbated by the explosion of passive management, which feeds the phenomenon by concentrating investments on a small number of stocks, mainly American, whose weighting continues to grow. For the European economy, the risk lies in the loss of attractiveness for foreign capital and, consequently, a reduced capacity to finance innovation and future growth.

And it has to be said that recent events are not likely to reverse this trend, since on one side of the Atlantic we see the new President bringing the hope of a pro-business policy likely to give investors confidence, and on the other, the two driving forces behind the European project are bogged down in political wrangling, postponing the implementation of much-needed reforms.

There's no doubt that investing in European equities today is a highly contrarian, not to say anti-consensus view. However, some will find the valuation argument, which clearly weighs in favor of European markets. In addition to multiples, which are lower in Europe for reasons of sector composition, it must be acknowledged that the discount between European equities and their US counterparts is steadily increasing, rising from just 10% in 2015 to around 40% today. For the rest, however, the various analyses point very much in favour of US equities, with their much higher margins and earnings prospects.

	S&P 500	Stoxx 600	EuroStoxx
P.E.R.	22.5	13.5	12.9
P/Bk	4.6	1.8	1.6
ROE	19	13	12
Profit Margin	13.6	10.5	9.4
12 Mth Gth	14.9	6.7	6.9

There's no denying that the US flagship index is enjoying one of its best years in the last 30 years, and that a degree of caution is called for. Nevertheless, and again taking the European market as a point of comparison, half of this increase is due to revaluation and the other half due to an improvement in earnings prospects. The increase in the European market, on the other hand, can only be explained by a revaluation effect, as the outlook was revised only marginally this year.

There are few arguments in favor of European equities today. Worse still, at the rate at which they have been marginalizing in recent years, and given the current dynamics, their position in the global market could be further eroded. At this stage, it's hard to imagine a trend reversal without a shock that would profoundly alter international investors' perception of our old continent.

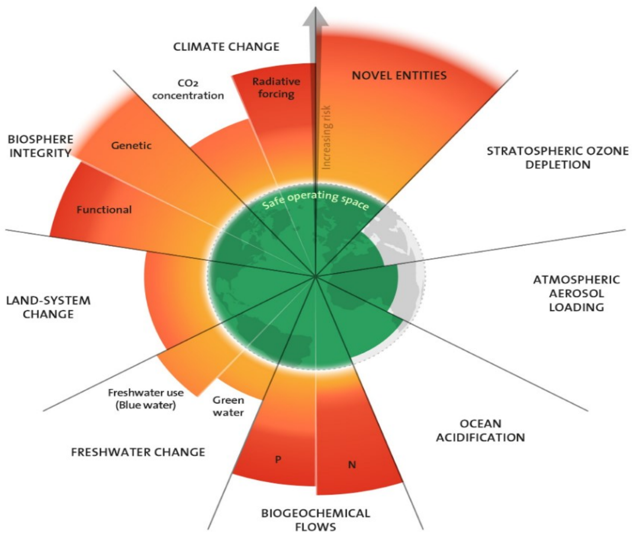
ISR FOCUS: PLANETARY LIMITS

by Edmond SCHAFF and Yaël LE SOLLIEC

In 2009, the Stockholm Resilience Centre (SRC), a research center specializing in resilience and sustainability issues, introduced the notion of planetary boundaries. It aims to define environmental limits that must not be exceeded to ensure the safety of the human species.

The Stockholm Resilience Centre team has modeled nine major processes regulating the Earth system.

For each process, the team identified one or more representative variables, such as CO2 for climate change, and analyzed the system's responses to changes in these variables.



SRC scientists have thus determined critical thresholds beyond which the planet's natural equilibrium risks being disrupted, making human living conditions much more difficult. Two values have been defined:

The low value, called the “planetary boundary”, marks the entry into a zone of uncertainty where the risk begins to increase.

The high value, known as the “planetary limit”, indicates a threshold beyond which disturbances become highly risky and potentially irreversible.

This planetary boundary approach highlights the interactions between these impacts and the disturbances generated by the negative externalities of human activities, which inevitably affect the biosphere.

Of the nine limits, six have been exceeded, four of which have reached the upper limit.

Biodiversity erosion is one of the limits exceeded. To assess this, the species extinction rate, measured as the number of extinctions per million species per year, is used.

While the lower threshold of this limit has been set by the SRC at 10 extinctions per million species per year, current observations show that this limit has been largely exceeded, with between 100 and 1,000 extinctions per million species taking place worldwide every year.

The freshwater cycle, for its part, saw its limit exceeded during a model revision in 2022. In 2015, the freshwater boundary was far from being crossed, as only risks to “blue” water - in other words, lakes, rivers and groundwater - were taken into account.

The inclusion of soil moisture levels (“green water”) in 2022 led scientists to consider that this limit had been exceeded.

The planetary limits model is intended to be enriched from year to year by adjusting thresholds or adding new metrics as scientific knowledge and data availability evolve.

Two limits have not yet been crossed: atmospheric ozone depletion and ocean acidification.

This shows that human action can be effective in preserving the environment when it is coordinated and global, since the Montreal Protocol has made it possible to achieve a gradual restoration of the ozone layer.

Finally, SRC teams have not yet been able to determine relevant thresholds for the increase in aerosols in the atmosphere.

The concept of planetary boundaries can be used by investors to help them understand the environmental impacts of their investments as a whole, going beyond the notions of climate change and biodiversity.

Letter drafted on December 16, 2024