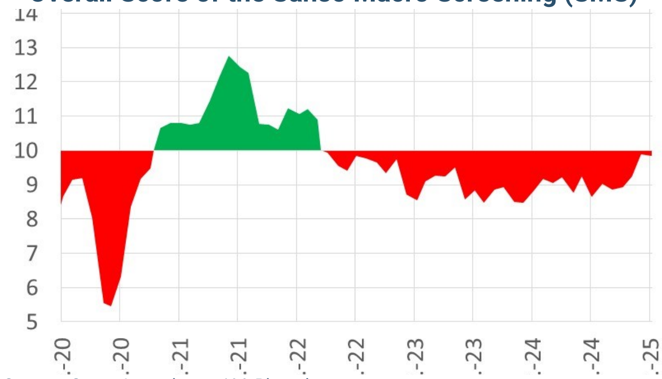
Investment Insight
January 2025

MACRO FOCUS : STABILITY… WHILE WAITING FOR D. TRUMP’S RETURN ?

by Cyriaque DAILLAND

The overall score of the Sanso Macro Screening (SMS) model remained stable over the month, moving slightly from 9.9 to 9.8. Both components (trend and level) also showed remarkable stability during the period. However, the situation varies across factors, with some improving, such as activity and real estate, while others declined, including trade and consumption. Meanwhile, the global composite PMI edged up slightly (52.6 vs. 52.4). This level is fully consistent with global growth hovering around 3% in 2025.

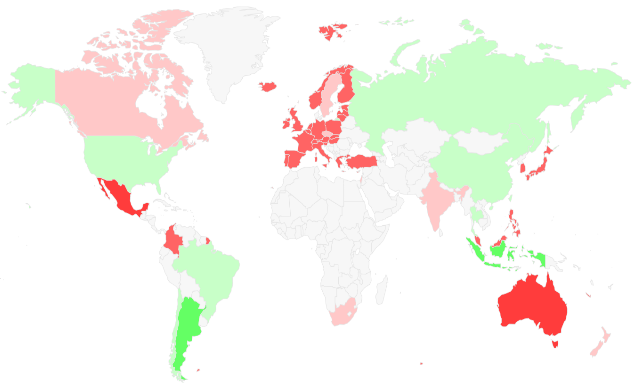
Overall Score of the Sanso Macro Screening (SMS)



Source : Sanso Longchamp AM, Bloomberg

The eurozone's score improved over the month, rising from 7.4 to 8.8. This improvement was primarily driven by gains in activity and real estate factors. However, given the high volatility of certain factors over recent months, it will be necessary for this trend to persist before considering a sustainable economic recovery in the eurozone. Meanwhile, the United States and Japan reported relatively stable scores during the period. As for China, it failed to confirm its economic recovery, with its score dropping from 11.3 to 10.4. While still above 10, the rebound remains limited.

World Map of the Sanso Macro Screeninng (SMS)



Source : Sanso Longchamp AM, Bloomberg

Contrary to our constructive outlook on the U.S. economy in 2023 and 2024, economists during the same period had anticipated a slowdown in activity. However, **2025 is already shaping up differently, with the consensus at the beginning of the year forecasting growth of 2.1%.** This projection aligns with the current economic data. Nevertheless, given the generally optimistic consensus on the economy, there is now a risk of disappointment. As a result, any negative news could cast doubt on the growth forecasts and lead to a reassessment of expectations.

Chart of the Month

Forecast of U.S Growth by Year

Source : BCA

The probability of the median scenario (moderate global growth) remains stable at 70%. In our view, the current environment aligns with global growth around 3% in 2025. Leading indicators, current activity levels, and anticipated rate cuts all support the stability of growth. In this context, the probability of a negative scenario (actual slowdown) also remains stable at 25%, while the positive scenario (significant rebound) holds at a probability of 5%.

1 The Sanso Macro Screening model covers 1,200 economic statistical series across around 30 countries. This model enables monthly monitoring of the global economic situation through the analysis of key countries. The scoring system, ranging from 0 to 20, aggregates statistically grouped data. Six factors are analyzed based on both their level and trend.

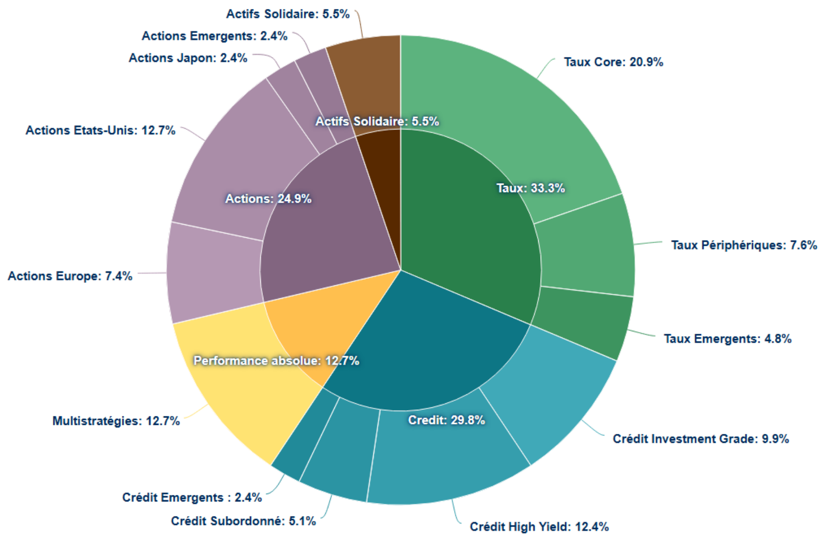
ALLOCATION FOCUS: DONALD TRUMP, A FACTOR TO CONSIDER?

by Cyriaque DAILLAND

Donald Trump will assume the presidency of the United States on January 20, 2025. From a financial markets perspective, his program appears "pro-business," highlighted by key measures such as maintaining low corporate taxes. However, his agenda has an inflationary bias, particularly due to plans to deport several million people working illegally in the U.S. Additionally, concerns have been raised about his stance on the independence of the Federal Reserve. **In the short term, Trump's policies may provide a boost to economic activity, but the situation could progressively deteriorate over time.** That said, history shows that political changes often cause market volatility but rarely serve as long-term drivers of market dynamics. Equity markets tend to exhibit stronger correlations with microeconomic performance than with political events.

Positions as of 13/01/2025	Negative		Neutral	Positive		Evolutions	Strategies
	- -	-	=	+	+ +		
ASSET CLASSES							
		Monetary				⇔	
			Bonds			⇔	
				Credit		⇔	
			Equities			⇔	
BONDS							
			Core			⇔	United States (10 year)
			Peripheral			⇔	Greece and Italy
			EM Local			⇔	
			EM Hard			⇔	
CREDIT							
			Invest. Grade			⇔	
				High Yield		⇔	Cross Over, Eurozone
				Subordinated		⇔	European financials
			EM			⇔	Latin America
EQUITIES							
			Europe			⇔	
				United States		⇔	
			Japon			⇔	
			Emerging			⇔	
CURRENCIES vs EUR							
				USD		⇔	
				JPY		⇔	
			G10			⇔	
			Emerging			⇔	

This allocation is implemented in the **Sanso Convictions ESG fund**. The portfolio is designed to adhere to a **flexible and diversified approach, with a systematic integration of extra-financial criteria.**



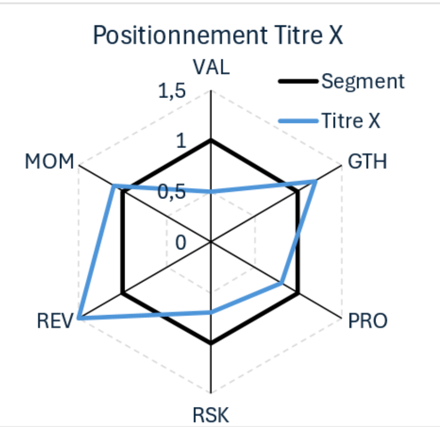
MARKET FOCUS: A 10 YEAR REVIEW OF THE SANSO STOCK PICKING MODEL

By Michel MENIGOZ and François FONTAINE

The Sanso Stock Picking model is an internally developed international equity selection tool designed to identify stocks with high potential for outperformance within their market segment. It is based on a philosophy that is both rational and objective. Rational, in that the criteria used to determine a stock's relative attractiveness are clearly identified and largely independent of one another. Objective, as the approach relies solely on market consensus data without incorporating any external or subjective inputs.

The methodology enables a comprehensive approach, even within a large investment universe such as developed-market international equities, comprising thousands of listed stocks.

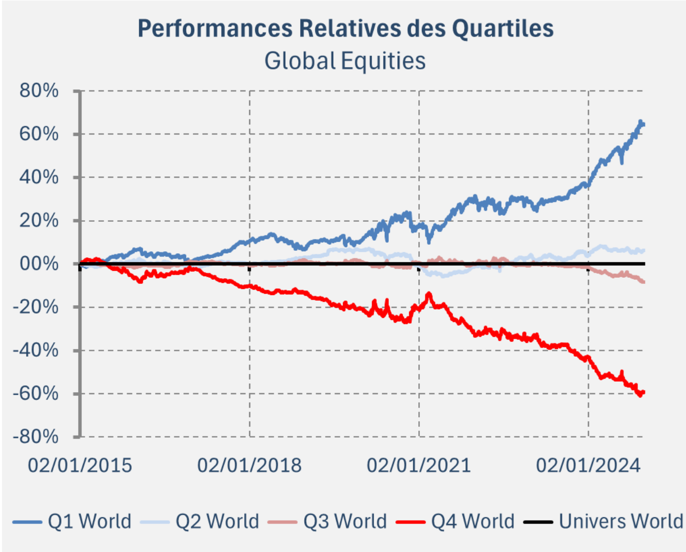
The selected criteria, grouped into factors, are divided into six fundamental axes. By positioning each stock within the investment universe according to its sector and characteristics—valuation, growth, profitability, risk, earnings revisions, and momentum—the model first identifies their strengths and weaknesses. Then, through a scoring methodology and by aggregating the information, the stocks are ranked from most to least attractive.



For over 10 years, these calculations have been carried out daily, using updated data, ensuring portfolio managers have access to an objective stock selection pool. Although the rational nature of the approach has always been unquestionable—essentially identifying stocks offering a strong balance between valuation, growth, quality, risk, and momentum—its effectiveness was only confirmed after years of analyzing its results.

Every day, we identify four groups (quartiles) of stocks ranked by descending attractiveness, aggregate them equally, and track their daily performance relative to the equally weighted investment universe.

The evolution of these quartiles over the past decade



on the global universe has been very satisfactory. The curves are symmetrical, well-ordered, and show significant gaps between quartiles.

However, the analysis results—this is not a backtest but a "live" monitoring of theoretical portfolios—reveal distinct phases that deserve examination. First, a certain instability, despite an overall positive trend. Then, a very volatile and unfavorable period during COVID-19. Finally, an acceleration phase over the past two years.

It is, of course, interesting to link these phases with the macroeconomic context of the time. The first phase, characterized by low inflation, low interest rates, and highly accommodative central banks, was unfavorable for valuation and growth criteria. However, quality and momentum criteria remained relevant. During the COVID-19 period, especially after the crash, markets entered a "Trash Rally" where rational criteria became less effective. Finally, as central banks reduced liquidity injections to address post-COVID inflationary pressures, interest rates and inflation returned to standard levels consistent with potential growth rates, greatly enhancing the model's effectiveness.

The perspective we now have on the Sanso Stock Picking model reinforces our confidence in its ability to identify stocks with the highest potential. It continues to teach us, day by day, how to evaluate its relevance based on the macroeconomic context. And rest assured, its relevance is particularly strong today!

ISR FOCUS: SUSTAINABILITY AND CLIMATE: TRENDS TO WATCH

by Edmond SCHAFF and Yaël LE SOLLIEC

The 2025 edition of the MSCI Sustainability and Climate Trends to Watch outlines six key trends to monitor in the year ahead.

Among the themes highlighted are the growing social risks in global equity markets.

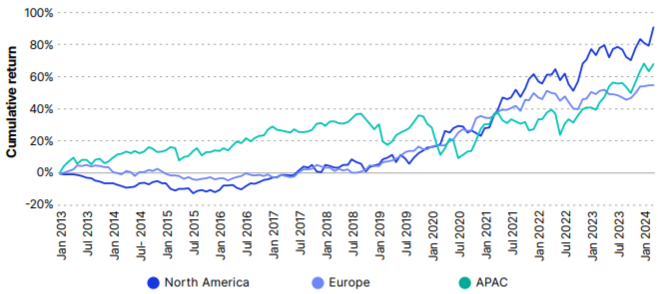
Since 2014, the technology and communication services sectors have dominated stock indices, overshadowing traditional sectors such as energy, materials, and utilities.

The predominance of these sectors has amplified social challenges such as data security, human capital management, and privacy.

These social risks now, in some cases, surpass traditional environmental concerns such as toxic emissions or climate change.

According to MSCI, effective management of these risks is a key factor in financial performance, enabling companies to outperform their competitors, particularly in North America, Europe, and Asia-Pacific.

Exhibit 9: Performance of highest- vs. lowest-rated MSCI ESG Rating social-pillar quintiles by region, equally weighted



Data from Dec. 31, 2012, to March 29, 2024. Quintiles are created every month based on a social score. We first regressed scores on market capitalization to eliminate any size bias. We then obtained the regression residuals and standardized them by region (North America, Europe and Asia-Pacific sub-indexes of the MSCI ACWI Index) and sector. Finally, we formed quintiles within each region and sector, based on these standardized z-scores. The chart shows the cumulative difference between the top and bottom quintiles' performance. Not an indication of causality. Past performance — whether actual, backtested or simulated — is no indication or guarantee of future performance. Source: MSCI ESG Research

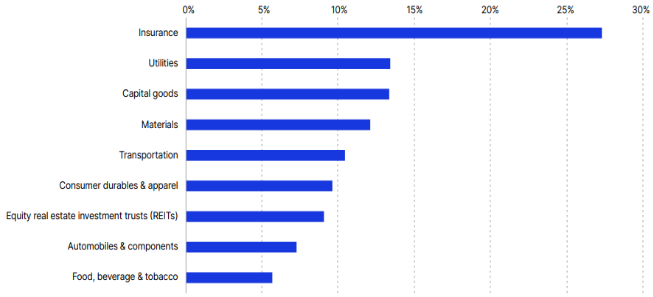
However, the relative importance of the E, S, and G pillars varies across regions, sectors, and asset classes. While social risks are sometimes underestimated, they are becoming increasingly critical in portfolio management.

Although these risks are growing, the physical risks associated with climate change remain a significant challenge.
According to an MSCI survey, 84% of financial professionals anticipate damage to infrastructure and negative regional impacts caused by extreme climate events.

In highly insured regions such as Europe and the United States, the increasing frequency of these phenomena could drive up insurance premiums or render certain properties uninsurable.

Faced with these challenges, companies are investing in climate resilience through green bonds. Simultaneously, innovative solutions, such as cooling systems and flood barriers, are emerging.

Exhibit 6: Percentage of companies in each industry group offering adaptation solutions



Data as of October 2024. Analysis shows the percentage of companies in each industry group that were identified as offering climate resilience and adaptation solutions, according to the methodology developed by the MSCI Sustainability Institute and GARI. Sub-industries with fewer than five solutions providers were excluded. Analysis covers constituents of the MSCI ACWI Investable Markets Index (IMI). Source: MSCI ESG Research

Equity markets therefore offer opportunities in companies focused on adaptation and resilience, with significant growth potential in sectors such as utilities and transportation.

A third trend to consider relates to the data used in Artificial Intelligence (AI) models.

AI spending continues to rise, with a doubling expected by 2025, while transparency and accountability requirements are increasing.

Access to data is becoming more restricted, notably due to new regulations and limitations on data collectors, leading to a 25% decline in high-quality data between 2023 and 2024.

In sectors like healthcare, AI projects have failed due to a lack of reliable data.

New laws, such as the AI Act in Europe, will impose greater transparency in model training, requiring companies to demonstrate the robustness of their data to avoid legal risks.

The next wave of AI investments will depend on the ability to ensure quality and reliability.

Letter written on January 21, 2025