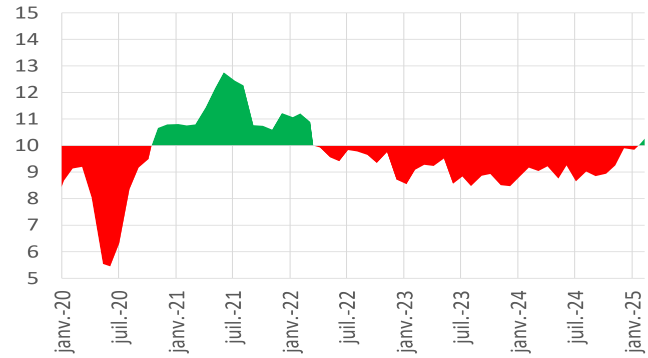
Investment Insight
February 2025

Macro Focus: Early Signs of Recovery - More Data Needed

by Cyriaque DAILLAND

The overall score of the Sanso Macro Screening (SMS) model1 rose from 9.8 to 10.3. This puts it above 10, a level not seen since March 2022! The improvement in the overall score is due to the 'level' component. In terms of factors, activity and real estate are showing significant increases. However, leading indicators have marginally decreased over the period. In the same vein, the global composite PMI fell from 52.6 to 51.8 over the month. Global growth is therefore benefiting from improving activity, but the indicators already show a slowdown in this trend

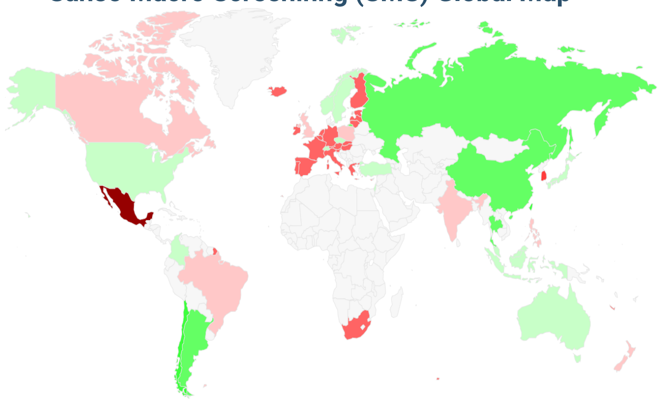
Sanso Macro Screening (SMS) Global Score



Source : Sanso IS, Bloomberg

China's score improved over the month, rising from 10.4 to 11.7. At the factor level, the gains are mainly concentrated in activity and real estate. However, the score attached to the leading indicators decreased from 12.9 to 11.0 over the period. Thus, the measures announced by the authorities seem to have spurred growth at the end of the year, but probably not sustainable over time. Japan also experienced a notable improvement in its score, as it rose from 8.8 to 10.7. The United States and the Eurozone showed relatively stable scores over the period.

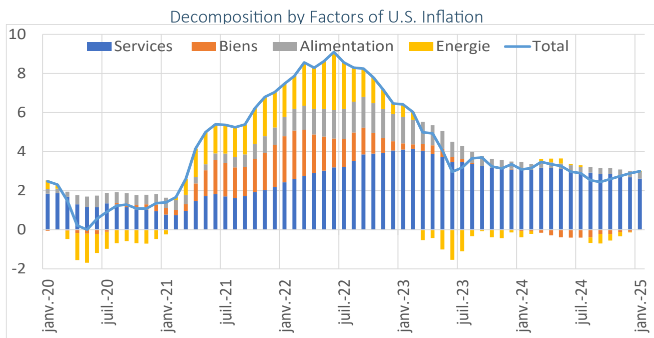
Sanso Macro Screeninng (SMS) Global Map



Source : Sanso IS, Bloomberg

US headline inflation has been trending upward for the past few months. In September 2024, it was at 2.5%, while in January 2025, it was reported at 3%. This recent increase has led the Federal Reserve to "reprice" the rate cuts expected in 2025. In terms of breakdown, there is a very positive element: the continued decline in the contribution of services. This trend is certainly gradual, but it is well established. On the other hand, more volatile factors such as energy or goods now have a more inflationary impact, which will need to be monitored in the coming months.

Chart of the Month



Source : Sanso IS, Bloomberg

The probability of the median scenario (moderate global growth) is once again stable, at 70%. The current environment remains consistent with global growth evolving around 3% in 2025. Even if there are sources of uncertainty (rising tariffs, geopolitical risks, a resurgence of inflation), the activity dynamic of 2024 should continue in 2025. Logically, the probability of a negative scenario (real slowdown) is also stable (25%), as is the positive scenario (significant rebound), which shows a probability of 5%.

[1] The Sanso Macro Screening model covers 1,200 economic statistical series across approximately thirty countries. This model allows for monthly monitoring of the evolving global economic situation through analysis of key countries. The rating system, ranging from 0 to 20, is an aggregation of statistically grouped data. Six factors are analyzed through their level and trend.

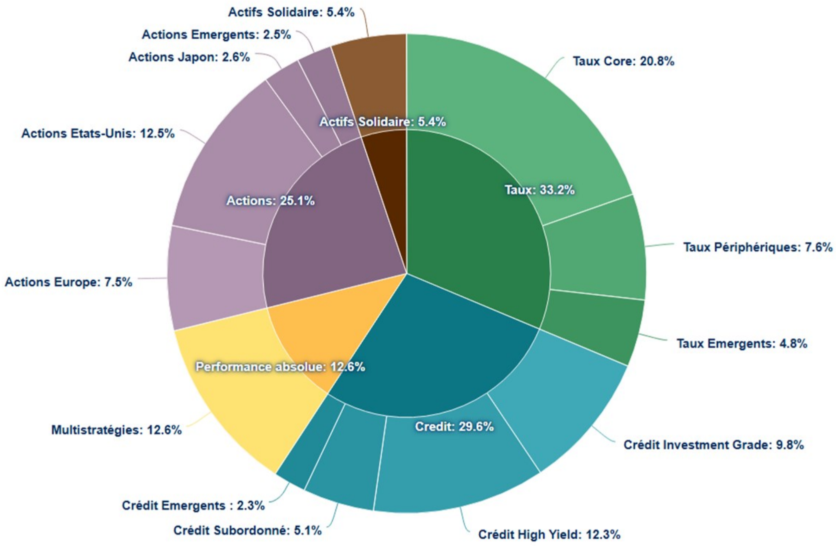
ALLOCATION FOCUS : ARE CHINESE EQUITIES A BARGAIN ?

by Cyriaque DAILLAND

Chinese stocks have underperformed for several years. Like small-cap stocks, asset class specialists have long been predicting a trend reversal... without it actually materializing. However, in the case of Chinese stocks, there has been a new willingness from authorities to support the economy as well as the financial markets. This new configuration led to a sharp rebound of the market in September... which was nevertheless largely erased subsequently. From our point of view, the pain threshold was reached during the summer on Chinese stocks. The ability of Chinese authorities to accept a further decline in the asset class is low. **However, other tangible elements will be needed, such as an improvement in corporate earnings or better visibility regarding the US-China trade war, to allow a sustainable rebound in Chinese stocks.**

Positions at 17/02/2025	Negatif		Neutral	Positif		Delta	Stategies
	- -	-	=	+	+ +		
ASSET CLASSES							
		Money Market				⇔	
			Bonds			⇔	
				Credit		⇔	
			Equities			⇔	
BONDS							
			Core			⇔	US (10Y)
			Peripheral			⇔	Greece Italy
			Emerging Local			⇔	
			Emerging Hard			⇔	
CREDIT							
			Invest. Grade			⇔	
				High Yield		⇔	Cross Over, Eurozone
				Sub		⇔	EUR Financials
			Emerging			⇔	LATAM
EQUITIES							
			Europe			⇔	
				USA		⇔	
			Japan			⇔	
			Emerging			⇔	
FX (vs EUR)							
				USD		⇔	
				JPY		⇔	
			G10			⇔	
			Emerging			⇔	

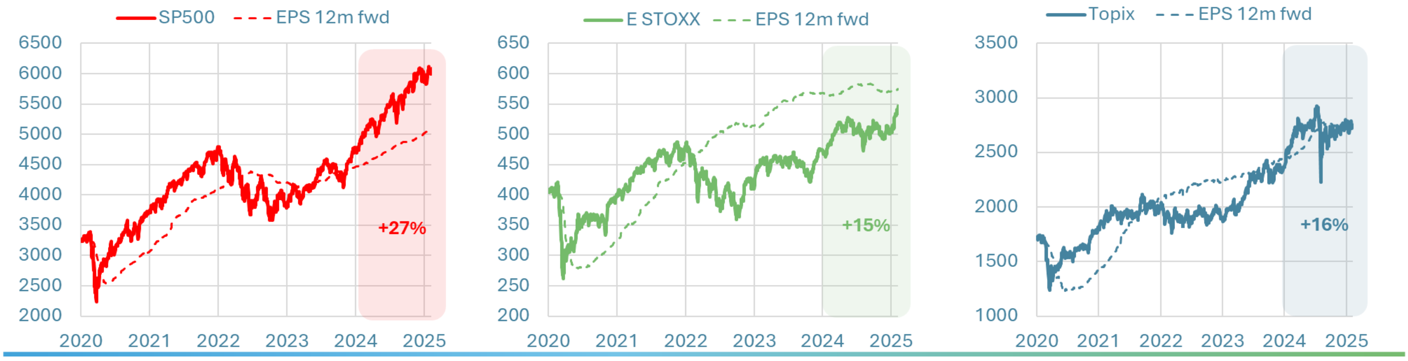
This allocation is implemented within the Sanso Convictions ESG fund. The portfolio is structured to follow a flexible and diversified approach while systematically considering extra-financial criteria.



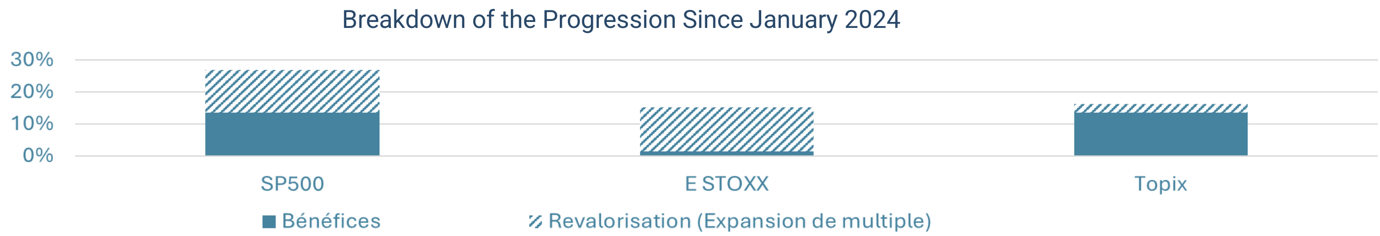
HETEROGENEOUS VALUATION YNAMICS

by Michel MENIGOZ & François FONTAINE

Comparing the major indices with their respective earnings performance over the past five years offers valuable insights. This long-term perspective allows us to analyze how much a market is ahead or behind consensus expectations. If it's ahead, it means it has exceeded what earnings growth would have suggested, and thus has revalued upwards. The charts below highlight the US market's lead over analysts' expectations, and similarly, the lag of the European market compared to consensus. The Japanese market shows growth in line with its earnings momentum.



During this period, the markets experienced a series of events, shocks, and reactions that profoundly impacted the dynamics of the indices. However, over the past year or so, the environment in terms of inflation and interest rates seems to have returned to what could be called a normal situation. Equity markets have remained on a very positive trend with double-digit gains since the beginning of 2024. Below is a breakdown of these gains between an earnings effect, which characterizes the intrinsic improvement of the markets, and a revaluation effect that reflects their relative expensiveness.



US Market

The US market stands out with a mixed dynamic of earnings growth and expansion of valuation multiples. Indeed, the earnings of US companies have continued to grow, meeting the strong expectations of the consensus. They have been supported by technological innovation, the strength of domestic consumption, and a relatively resilient macroeconomic environment. At the same time, valuation multiples have increased, in similar proportions, reflecting investors' confidence in the long-term sustainability of this growth. This balanced combination has allowed the US market to generate solid performance over the period.

European Market

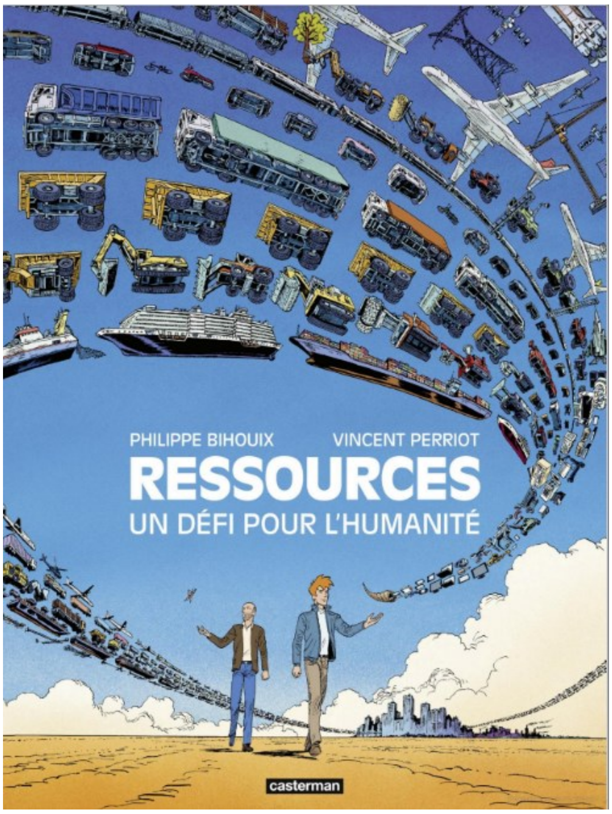
In Europe, the situation is different since the rise in markets is not based on earnings growth, but only on an expansion of valuation multiples. The results of European companies have remained relatively stable, even stagnant in some key sectors. However, investors, encouraged by a context of easing interest rates and hope for economic recovery, have agreed to pay more for their shares, which has led to a significant increase in valuation multiples. This dependence on the revaluation of multiples, however, makes the market's progress less healthy and more fragile, particularly in the event of a sentiment reversal or macroeconomic disappointment.

Europe, which we initially considered the least promising of the three markets, has surprisingly outperformed expectations in early 2025. In less than two months, growth has already surpassed 10%.

FOCUS ISR : THE DEPLETION OF NATURAL RESOURCES IN COMICS

by Edmond SCHAFF & Yaël LE SOLLIEC

A dozen worms cannot endlessly gnaw at the same fruit. This quote from Russian writer Solzhenitsyn, found on page 46, aptly summarizes the message delivered by 'Resources**: A Challenge for Humanity**'. This graphic novel, published last year, is the result of a collaboration between Philippe Bihouix, a CentraleSupélec engineer and author of various works on the theme of resources, and cartoonist Vincent Perriot.



Built on a very similar format to Jancovici and Blain's '**World Without End**', this book focuses on the issue of natural resource depletion, particularly metals.

It begins by retracing the history of the debate between cornucopians, those who believe that thanks to technological progress, growth can be infinite and that we are moving towards a world where goods and services will be available in abundance for all, and proponents of a more "Malthusian" vision of economics and society in which technological progress will sooner or later come up against the finite nature of our planet.

This debate is obviously not new and today the most fervent supporters of infinite growth already imagine humanity overcoming the problem of planetary limits through space conquest and futuristic technologies such as the Dyson sphere, which would allow us to exploit all the energy of our star, the sun, before, of course, colonizing the entire galaxy.

However, these technologies remain highly theoretical and progress on potential innovations such as nuclear fusion is slower than what was imagined a few decades ago. The thirst for growth in our societies could therefore quickly be challenged by the limited amount of exploitable resources present on our planet.

This is all the more true as technological progress is generally accompanied by a "rebound effect" which leads to an increase in uses that more than compensates for efficiency gains. Thus, more fuel-efficient aircraft engines have allowed the development of "low-cost" models and consequently the increase in air traffic and the consumption of fuel and resources to build the aircraft.

Therefore, the authors assert that in the next 30 years we should extract more resources than since the dawn of humanity and highlight the hidden face of the "dematerialization" of the economy, the production of a smartphone requiring the extraction of more than a thousand times its weight in resources.

The book then addresses the issue of recycling, emphasizing that while we have every interest in developing this sector, it is nevertheless imperfect insofar as, for various technical reasons, metal recycling rates never reach 100% and can even be at much lower levels. Moreover, the recycling of electronic devices that combine several dozen metals requires the implementation of very complex processes, which are still imperfect and not widespread.

The last part addresses some of the changes necessary for sustainable management of natural resources, for example, products designed and used sparingly and that are easily repairable or reusable. It emphasizes that this implies radical changes in our way of consuming and that the social and economic consequences of these changes are uncertain.

The issue of natural resources is obviously central to a long-term investor and is naturally taken into account in the investment processes of our SRI funds, in particular Sanso Essentiel and Sanso Smart Climate, in order to favor the most virtuous companies in this area.