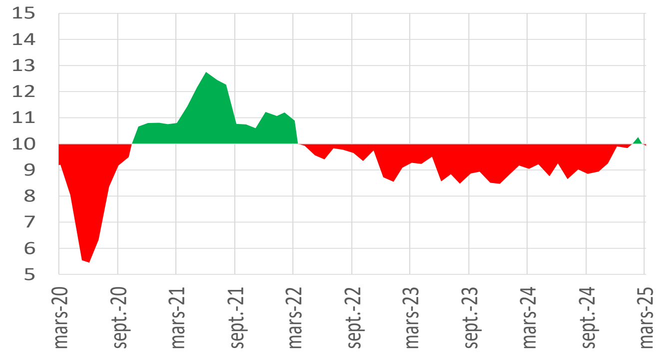
Investment Strategy Letter
March 2025

MACRO FOCUS: THE GLOBAL ECONOMY HESITATES ON ITS TREND

by Cyriaque DAILLAND

The overall score of the Sanso Macro Screening (SMS) model drops from 10.3 to 9.9. The positive signal triggered by the score surpassing 10 has therefore not been confirmed! The trend component explains the deterioration in the overall score. The positive momentum seen in the fourth quarter of 2024 is already fading at the start of 2025. In terms of factors, consumption and real estate are showing declines. Leading indicators continue to slowly deteriorate, though their scores remain above 10. Similarly, the global composite PMI follows the same trend, declining from 51.8 to 51.5 over the month.

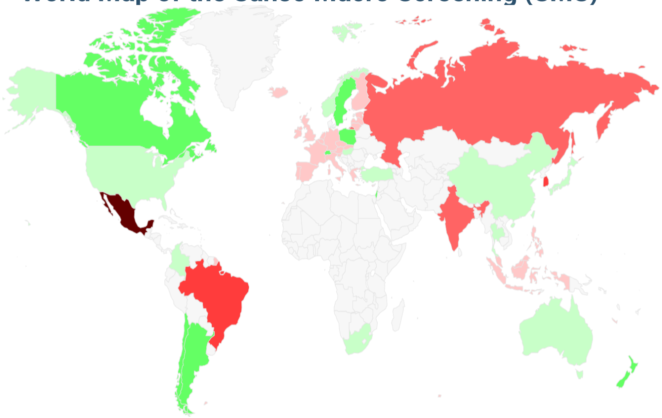
Overall Score of the Sanso Macro Screening (SMS)



Source : Sanso Longchamp AM; Bloomberg

The **Eurozone's score** improved over the month, rising from **8.5 to 9.6**. Both the level and trend components are improving in 2025. In terms of factors, the gains are mainly concentrated in leading indicators and real estate. After two years of growth hovering around 0.5%, the economic momentum is expected to improve. Regarding the United States, China, and Japan, their scores declined in February, but remain above 10. The trajectory of the U.S. economy under D. Trump's policies is a source of concern. Overall, a convergence of scores among the world's major economies around 10 is currently taking shape.

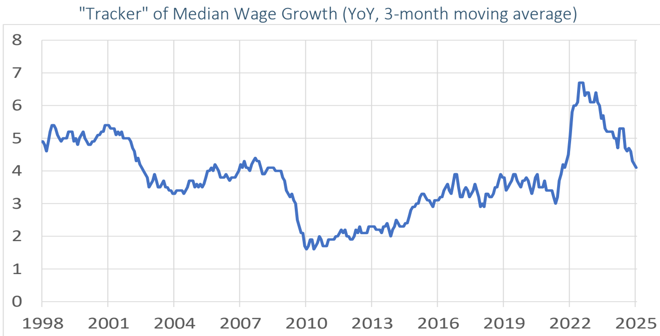
World Map of the Sanso Macro Screening (SMS)



Source : Sanso Longchamp AM; Bloomberg

In a period of uncertainty for the U.S. economy, the Federal Reserve is likely to welcome the ongoing normalization of wage increases. **Since peaking at nearly 7% in 2022, wage growth has been gradually slowing, now reaching 4.1%.** Wages are a key factor for the Fed because they are the main inflationary driver in the services sector, which accounts for 61% of U.S. GDP. From our perspective, without the impact of tariffs and immigration policies—both inflationary factors—the Fed could have considered its fight against inflation won.

Monthly Chart



Source : Sanso Longchamp AM; Bloomberg; FED d'Atlanta

The probability of the median scenario (moderate global growth) has declined from 70% to 65%. While the current economic environment remains aligned with this scenario, the persistent instability caused by D. Trump's policies could lead to widespread cautiousness among economic agents in the United States and globally. A key issue for 2025 is the implementation of tariffs, which could further impact economic dynamics. As a result, the probability of a negative scenario (genuine slowdown) has increased from 25% to 30%, while the positive scenario (significant rebound) remains unlikely, with a 5% probability.

The Sanso Macro Screening (SMS) model covers 1,200 economic statistical series across approximately 30 countries. This model enables a monthly assessment of the global economic situation by analyzing key economies. The scoring system, which ranges from 0 to 20, is based on an aggregation of statistically grouped data. Six factors are analyzed, taking into account both their level and trend.

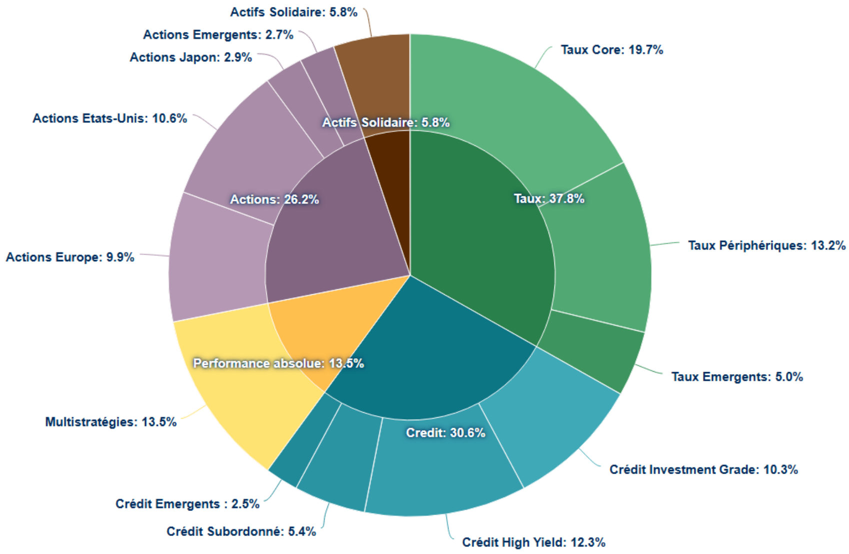
ALLOCATION FOCUS: EUROPE, ON THE BRINK OF A REVOLUTION?

by Cyriaque DAILLAND

In 1976, Jean Monnet wrote that *"Europe will be built through crises, and it will be the sum of the solutions brought to these crises."* The Eurozone crisis of the 2010s is a prime example, as it led to structural monetary advancements. Donald Trump's transactional approach to geopolitics acted as a shockwave for European countries. In response, Germany, with a debt-to-GDP ratio of 62%, embarked on a budgetary revolution, announcing two major plans focused on defense and infrastructure. From an economic standpoint, the impact of the military stimulus plan will be limited. However, the infrastructure program will have a real and significant effect. German economic growth is expected to be boosted by approximately +0.5% per year, a substantial impact for a country with a potential growth rate of only 1%. **Given this context, our previous preference for U.S. equities over European equities is now less relevant, leading us to adopt a neutral stance on both regions.**

Positions at 17/03/2025	Negative		Neutral	Positive		Evolutions	Strategies
	- -	-	=	+	+ +		
ASSET CLASSES							
		Monetary				⇔	
			Debt			⇔	
				Credit		⇔	
			Equities			⇔	
DEBT							
			Core			⇔	United Statees (10 yrs)
			Peripherals			⇔	Greece and Italy
			Emg Local			⇔	
			Emg Hard			⇔	
CREDIT							
			Invest. Grade			⇔	
				High Yield		⇔	Cross Over, Eurozone
				Subordinated		⇔	European Financials
			Emergents			⇔	Latin America
EQUITIES							
			Europe			⇔	
			United-Stated			⇘	
			Japan			⇔	
			Emergents			⇔	
CURRENCIES vs EUR							
				USD		⇔	
				JPY		⇔	
			G10			⇔	
			Emergents			⇔	

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



CONTRADICTORY SIGNALS ON CHINESE INDICES

by Michel MENIGOZ & François FONTAINE

In a tumultuous market environment, global equities have shown contrasting dynamics since the beginning of the year. While U.S. markets are already experiencing what some call a "correction" with a peak-to-trough decline of over 10%, European equities remain firmly in positive territory, delivering returns between 5% and 10%.

This outperformance, which has nearly erased the opposite gap seen in 2024, gained momentum when China's DeepSeek disrupted the market, leading to significant profit-taking in the technology sector and simultaneously renewed interest in European equities.

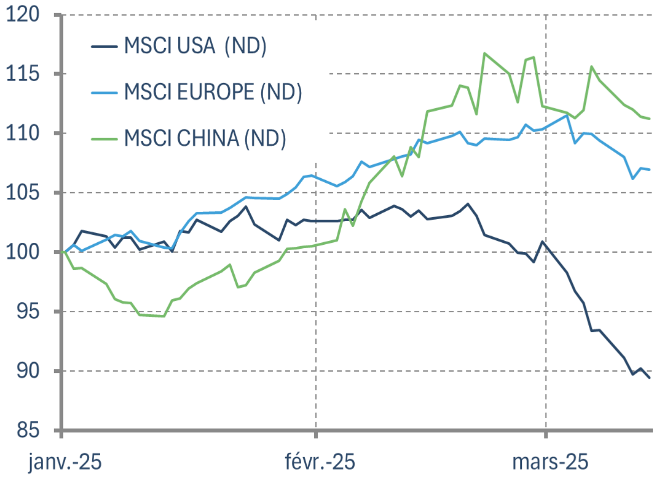
European equities have long enjoyed a very attractive valuation, not only relative to U.S. stocks but also compared to their own historical levels.

Additionally, the European Central Bank (ECB) has now adopted a more accommodative stance compared to the Federal Reserve, which remains cautious given D. Trump's inflationary policies.

However, what has really strengthened the attractiveness of European markets is the significant improvement in corporate earnings compared to previous quarters, alongside enhanced growth prospects due to newly announced stimulus and defense investment plans.

Banks and industrial stocks have been the primary beneficiaries, delivering double-digit gains.

MARCHES ACTIONS EN 2025



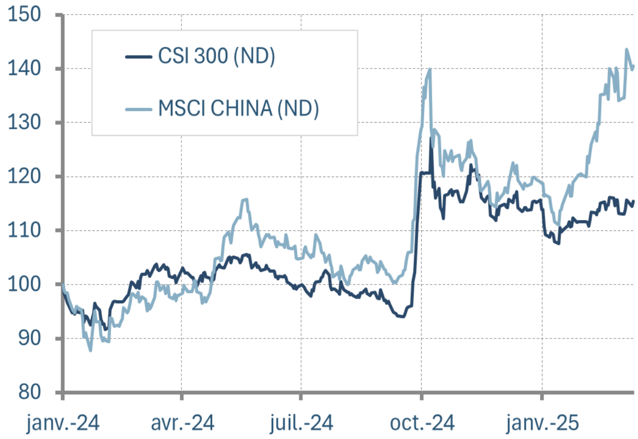
(Indices exprimés en EUR, div nets réinvestis)

Another positive surprise this year—less frequently discussed in market analyses—is the strong performance of Chinese equities.

According to the MSCI China Index, the market has gained over 10% in EUR and about 5% more in local currency.

This index, which represents over a quarter of the MSCI Emerging Markets Index, covers a broad spectrum of Chinese companies, including foreign-listed firms with greater liquidity. It includes:

PERFORMANCES DES INDICES CHINOIS



(Indices exprimés en HKD, div nets réinvestis)

- H-shares (listed in Hong Kong)
- ADRs (Chinese stocks listed in the U.S.)
- A-shares, which make up only 20% of the index

As a result, the MSCI China Index is highly sensitive to global market trends and capital flows.

In contrast, the CSI 300 Index, which consists of the 300 largest companies listed on Shanghai and Shenzhen stock exchanges, is entirely composed of domestic (A-share) companies. It is more exposed to government policies, as these firms are directly impacted by monetary and regulatory decisions from Beijing.

Despite their differences, historical performance trends for both indices have been relatively similar in recent years.

Both indices initially reacted positively to China's broad-based stimulus plan in October 2024, before gradually losing momentum.

However, at the start of 2025, the MSCI China Index's technology bias has worked in its favor, while CSI 300 stocks continue to suffer from weak domestic economic sentiment.

It is also worth noting that, in terms of valuation, the MSCI China Index had been trading at a 25% discount to the CSI 300 Index—a gap not seen since 2016.

The recent rebound has already narrowed this discount by half, suggesting that there is still room for further rebalancing.

The interpretation of the Chinese equity market is not always easy. Over short periods, domestic stocks and internationally exposed securities can diverge significantly.

SRI FOCUS: CSRD 2.0

by Edmond SCHAFF & Yaël LE SOLLIEC

An "omnibus" text, in the context of European legislation, refers to an initiative that brings together multiple modifications or revisions of existing texts into a single proposal.

It can take the form of a directive or a European regulation, with the aim of simplifying, harmonizing, or adapting the regulatory framework to specific issues while reducing the administrative burden for affected stakeholders.

In 2024, the European Commission (EC) proposed an "omnibus" directive to simplify and harmonize several Green Deal regulations. This project concerns:

- CSRD (Corporate Sustainability Reporting Directive): increased ESG transparency obligations.
- Green Taxonomy: criteria to identify sustainable economic activities.
- Corporate Sustainability Due Diligence Directive (CS3D): corporate responsibility regarding human rights and the environment.

This initiative aligns with the goal of strengthening coherence in European policies, responding to the Draghi Report, which called for regulatory simplification to improve competitiveness.

On February 26, the EC published its legislative proposal. It consists of two texts: the first modifies the implementation dates of the CSRD and CS3D, while the second amends these two regulations.

	Dans le cadre de la CSRD existante	Omnibus 1 (proposition "arrêt du chronomètre" à accélérer)	Omnibus 2 (contenant des propositions substantielles)
Grandes entités d'intérêt public de plus de 1000 salariés	- Reporting sur l'exercice 2024 - Reporting conformément aux ESRS - Normes sectorielles à respecter lors de l'adoption	Continuer le reporting	Continuer le reporting selon les ESRS révisés
Grandes entités d'intérêt public de 500 - 1000 salariés			Ne sont plus tenues de publier, mais peuvent fournir des informations établies conformément à une norme volontaire, basée sur la norme VSME
Grandes entreprises de plus de 1000 salariés	- Reporting sur l'exercice 2025 - Reporting conformément aux ESRS - Normes sectorielles à respecter lors de l'adoption	Dans le périmètre à partir de l'exercice 2027	Faire le reporting selon les ESRS modifiés à partir de l'exercice 2027
Grandes entreprises employant jusqu'à 1000 salariés			Ne sont plus tenues de publier, mais peuvent fournir des informations établies conformément à une norme volontaire, basée sur la norme VSME
PME cotées	- Reporting à partir de l'exercice 2026 avec la possibilité de se désinscrire jusqu'à l'exercice 2028 - Reporting sous la norme entreprise cotée	Dans le périmètre à partir de l'exercice 2028	Ne sont plus tenues de publier, mais peuvent fournir des informations établies conformément à une norme volontaire, basée sur la norme VSME
Siège social hors UE	Reporting selon les ESRS pour les groupes hors UE (NESRS) au niveau du groupe à partir de l'exercice 2028 lorsque le groupe a : - 150 M€ de chiffre d'affaires réalisé dans l'UE, et au moins l'un des éléments suivants : - Filiale de l'UE dans le périmètre, ou - Succursale UE avec un chiffre d'affaires > 40 M€	Dans le périmètre à partir de l'exercice 2029 si elles respectent les critères	Reporting selon les NESRS au niveau du groupe à partir de l'exercice 2028 lorsque le groupe a : - 450 M€ de chiffre d'affaires réalisé dans l'UE, et au moins l'un des éléments suivants : - Filiale de l'UE dans le périmètre, ou - Succursale UE avec un chiffre d'affaires > 50 M€

Regarding the CSRD, several changes are proposed.

The applicability threshold would be modified to apply to companies with more than 1,000 employees, a turnover exceeding €50 million, or a balance sheet above €25 million.

The thresholds for non-EU companies would be significantly increased, which further exacerbates concerns over a level playing field.

The double materiality principle, initially questioned, is ultimately retained in the text. However, sector-specific standards have been removed. General standards would be simplified later through a delegated act, with the goal of reducing the number of data points in the European Sustainability Reporting Standards (ESRS).

Regarding taxonomy reporting, it would become mandatory for companies with more than 1,000 employees and €450 million in turnover, while remaining voluntary for others.

Finally, the implementation timeline would be delayed by two years, postponing the reporting requirements for the second and third waves.

These measures have sparked mixed reactions.

A part of the business sector supports these changes. According to the Commission, they should help reduce administrative costs by €6.3 billion annually, ultimately preserving European competitiveness. Other stakeholders see this simplification as a weakening of corporate sustainability reporting requirements, which would penalize companies already engaged in the transition.

Beyond the cost reductions, they perceive this as a step back from the environmental and social ambitions of the European economy.

With this simplification, nearly 80% of the companies initially affected by the directive will no longer be required to report, which could slow down the sustainable transformation of European businesses.

The legislative proposals will now be reviewed by the European Parliament and the Council.

The Commission is pushing for the omnibus package to be treated as a priority, particularly regarding the postponement of CSRD reporting obligations and the CS3D transposition deadline.

If adopted, the modifications will come into force once an agreement is reached between co-legislators and after their publication in the Official Journal of the EU.