Investment Insight
June 2025

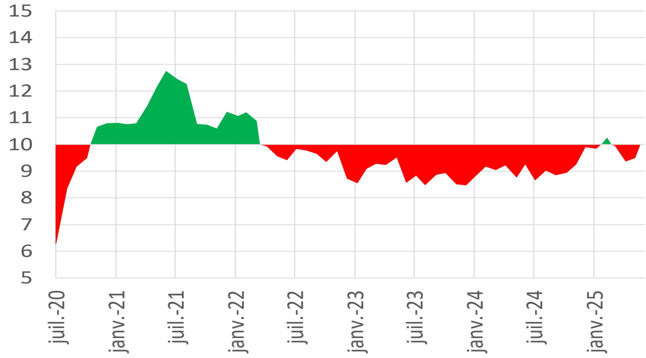
MACRO FOCUS : THE ECONOMY SHOWS SIGN OF RESILIENCE

Cyriaque DAILLAND

The overall score of the Sanso Macro Screening (SMS) [1] model improved from 9.5 to 10.0. Among the various components, the trend factor largely explains this rebound. In terms of drivers, the positive momentum is mainly driven by the leading indicators. This is also reflected in the global composite PMI, which recorded a slight increase from 50.8 to 51.2.

It is the services sector, rather than manufacturing, that is driving this improvement. These indicators should probably be taken with a pinch of salt — part of the increase comes from rising prices, which isn't exactly encouraging in today's environment. .

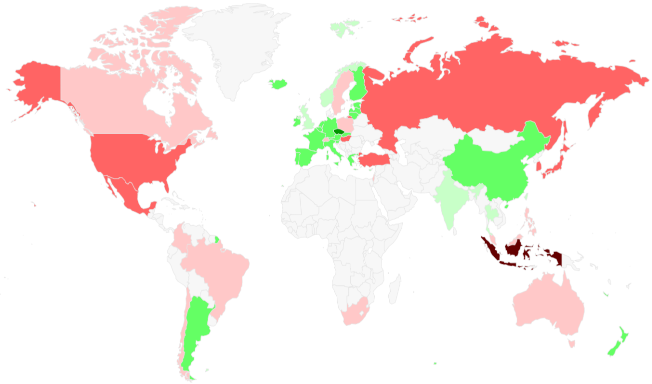
Overall Score of the Sanso Macro Screening (SMS)



Source : Sanso Longchamp AM

The euro area score increased this month, rising from 10.2 to 11.5. This improvement can be attributed to three main factors: leading indicators, activity levels, and trade. It confirms that the eurozone economy has been showing a notable improvement over the past few months. In absolute terms, growth remains modest (below 1%) but appears stable in a global context where growth rates are generally declining. In the United States, the score also improved but remains below the threshold of 10. Meanwhile, Japan's score reflects a loss of momentum due to slowing consumption and trade

World Map of the Sanso Macro Screening (SMS)

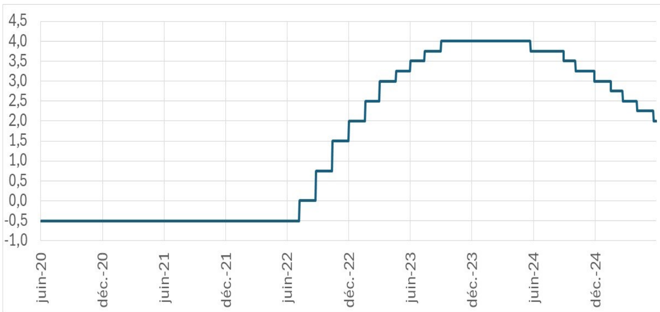


Source : Sanso Longchamp AM

The ECB has pursued a proactive monetary policy in recent years. It introduced negative rates in 2021 to support economic activity and inflation. Conversely, in 2022, the ECB significantly raised rates to combat inflation. Now that price dynamic has stabilized, the ECB has initiated a rate-cutting cycle, bringing it down from 4% to 2%. **The central bank seems to consider that its monetary policy is approaching a neutral stance, which imply no major adjustments unless there is a significant shift in the global environment.**

Chart of the Month

European Central Bank (ECB) Deposit Rate



Source : Sanso Longchamp AM

The probability of the median scenario (moderate global growth) stands at 60%. This remains the base case, although several risks persist (tariffs negotiations, geopolitical tensions, U.S. budget issues, etc.). However, the global economy currently shows no major imbalances that would justify a significant slowdown. In this context, the probability of a negative scenario (marked slowdown) remains stable at 40%, while the likelihood of a positive scenario (significant rebound) is currently assessed as zero.

[1] The Sanso Macro Screening model covers 1,200 economic data series across approximately 30 countries. The model enables monthly monitoring of the global economic environment through analysis of key economies. The scoring system, ranging from 0 to 20, aggregates statistically grouped data. Six factors are analysed based on both their levels and trends.

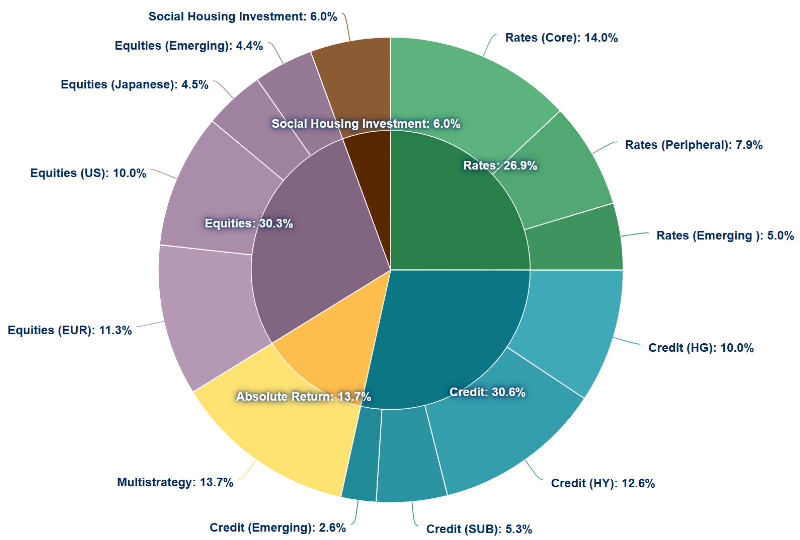
ALLOCATION FOCUS : STRATEGIC CAUTION ON EQUITIES

Cyriaque DAILLAND

For more than five years, the strategic stance on equities in this letter has fluctuated between neutral and positive. This constructive view on the asset class has proven successful, although it was challenged from time to time (notably in 2022).The current environment now justifies a more cautious stance for several reasons: equity valuations are high (12-month forward P/E of 20 for the MSCI World) and are priced for perfection; the economic outlook remains uncertain; seasonality tends to turn less favourable from May onwards; and geopolitical tensions remain elevated (Ukraine, Middle East, Taiwan, among others).**This view could shift if equity markets were to correct by 10% to 20%, as was seen in April. However, absent such a correction, we recommend maintaining a prudent approach to preserve the flexibility to act when equities present a more attractive risk profile.**

Position as of 06.16.2025	Negative		Neutral	Positive		Evolutions	Strategies
	- -	-	=	+	+ +		
ASSET CLASS (Absolute)							
		Money Market				⇔	
			Bonds			⇔	
				Credit		⇔	
		Equities				⇘	No geographical preference
BONDS (Relative)							
			Core			⇔	United-States (10 years Treasuries)
			Peripherals			⇔	Greece & Italy
			Emg Local			⇔	
			Emg Hard			⇔	
CREDIT (Relative)							
			Invest. Grade			⇔	
				High Yield		⇔	Cross Over, Eurozone
				Subordinated		⇔	European Financials
			Emerging			⇔	Latin America
EQUITIES (Relative)							
			Europe			⇔	
			United-States			⇔	
			Japan			⇔	
			Emerging			⇔	
CURRENCIES vs EUR							
			USD			⇔	
				JPY		⇔	
			G10			⇔	
			Emerging			⇔	

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



MARKET FOCUS :

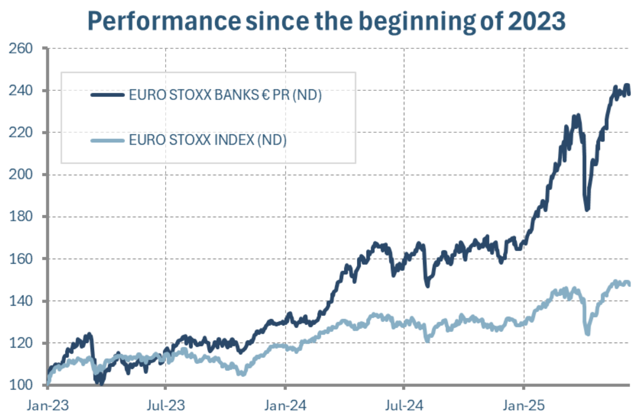
EUROPEAN BANKS, RATE MIRAGE OR GENUINE RECOVERY?

Michel MENIGOZ & Enzo PEREIRA

Over the past two years, the European financial sector has demonstrated remarkable momentum. Long overlooked in portfolios held back by years of low interest rates and post-crisis regulation, it's now returning to the spotlight.

This outperformance is not just a technical rebound: it is supported by a favorable macroeconomic and strategic backdrop, where rising interest rates, balance sheet normalisation, and improved capital discipline are reshaping the sector's financial appeal.

European banks have experienced a genuine rally. Since 2023, banking sector have significantly outperformed the broader European market, as illustrated in the chart below.



This rally is even more impressive when you realize that, the European banks have outperformed the "Magnificent 7" since the start of 2023. Not a small feat!

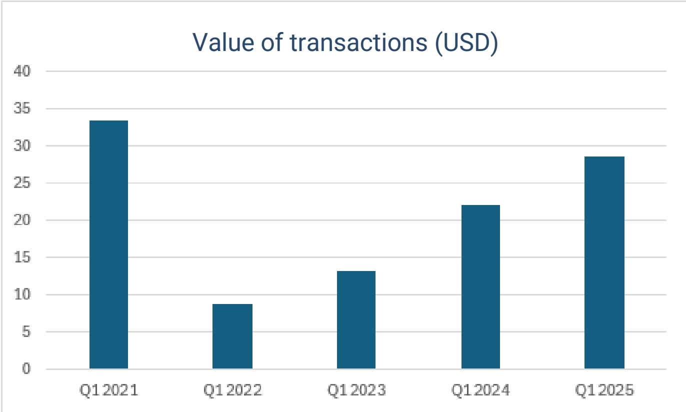
A contrast that highlights the renewed strength of the sector in Europe, despite a global environment still largely dominated by U.S. technology stocks.

Commercial banks, in particular, have been key beneficiaries of this environment. With a large share of variable -rate loans and a low-cost deposit base, they have seen their Net Interest Income (NII) surge.

The sector's momentum goes beyond banks. Insurers have also benefited from higher interest rates. The increase in bond yields has enabled them to rebuild portfolios with more attractive returns and to improve technical margins.

This recovery in the European financial sector is also being supported by renewed M&A activity. In the first quarter of 2025 alone, banking-related transactions amounted to USD 28 billion almost as much as for the entire year 2023.

However, the most spectacular momentum remains concentrated in Southern European markets.



Banking Sector M&A Activity in Europe from 2021 to 2025 (USD bn)

Marked by the sovereign debt crisis between 2010 and 2015, Southern European banks long struggled with a confidence deficit. Spanish, Italian, and Greek banks have since undertaken strategic shifts, reinforced by a favourable cyclical backdrop.

With greater exposure to variable-rate loans, their margins have expanded more rapidly than those of their Northern European peers. They have also benefited from a long-overdue valuation catch-up.

However, the strong performance of European bank stocks should not obscure the uncertainties still facing the sector.

The rate-hiking cycle that drove the expansion in net interest margins since 2022 is now behind us, following eight rate cuts by the ECB, which have brought monetary conditions back to a so-called "neutral" zone.

In Q1 2025, banks increased their NPL provisions by 13% year-on-year—a clear sign of heightened caution in an uncertain environment.

In addition, significant exogenous risks remain, with tariffs likely to weigh on economic growth and potentially impact banks' asset portfolios.

So, is this simply a rate-driven effect or the sign of a genuine structural transformation? Perhaps a bit of both.

What is certain is that European financials supported by strengthened balance sheets, a stabilised regulatory environment, and growing demand for recurring income (dividends) have regained their place in investor portfolios. And as the cycle progresses, they may well continue to surprise.

ESG FOCUS : HOW OCEANS WORK ?

Edmond SCHAFF & Yaël LE SOLLIEC

The spotlight is on the oceans this June, with World Oceans Day and the United Nations Ocean Conference (UNOC) both highlighting their fundamental role.

First and foremost, they contribute USD 2.6 trillion to the global economy each year, representing between 3% and 4% of global Gross Value Added (GVA) between 1995 and 2020.

Beyond this economic contribution, oceans also provide vital ecosystem services such as climate regulation.

They can absorb and store heat: since the industrial era, oceans have absorbed more than 90% of the excess heat trapped in the atmosphere due to human-induced greenhouse gas emissions. This heat is then redistributed globally through ocean currents, helping to moderate extreme temperatures.

Oceans also act as a carbon sink, absorbing 23% of human-generated CO_2 emissions. This is made possible by two key mechanisms:

- The solubility pump: CO_2 from the atmosphere dissolves into surface ocean waters. These surface layers are then transported to deeper waters by ocean currents, where the CO_2 can be stored for long periods.

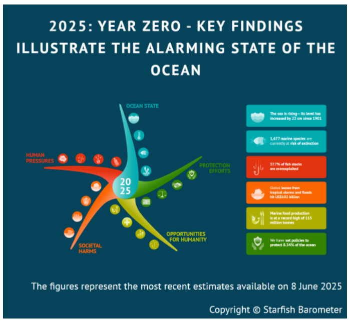
- The biological pump: this is the "living" process by which CO_2 is captured by phytoplankton at the ocean's surface and transformed into organic matter. This carbon is then transferred through the marine food chain. When these organisms die or produce waste, their carbon-rich remains sink to the ocean floor, contributing to long-term carbon storage.

Finally, through the evaporation-condensation-precipitation cycle, oceans absorb heat, convert it into water vapour, and transport it via atmospheric currents. This heat is later released to form clouds, helping to moderate extreme temperatures and redistribute heat more evenly across the planet.

This climate regulation service has been under strain for years, particularly due to human pressures. Rising CO_2 emissions are driving many of these disruptions.

Because of their ability to absorb both heat and CO_2, ocean temperatures have risen by approximately 0.41°C between 1993 and 2021, according to the Copernicus Institute. This warming has contributed, among other impacts, to sea level rise—23 cm since 1901.

Another direct consequence is ocean acidification: acidity has increased by 30% over the past 39 years. This makes it more difficult for shell- and skeleton-building marine organisms to form and maintain their structures, threatening ecosystems such as coral reefs. It also significantly impairs the oceans' capacity for CO_2 absorption and oxygenation.



The second major pressure on the oceans is plastic pollution. More than 80% of marine debris is plastic, with an estimated 8 to 12 million tonnes entering the oceans each year the equivalent of one garbage truck per minute.

This leads to ingestion and entanglement issues for marine species. In addition, plastic pollution suffocates and damages vital ecosystems such as coral reefs, mangroves, and seagrass beds.

Overfishing also reduces fish populations 38% of global fish stocks were overexploited in 2021. It further degrades marine habitats through practices such as bottom trawling.

International and governmental actions are underway to mitigate the damage inflicted on the oceans.

The High Seas Treaty, expected to enter into force by 2026, aims to protect marine biodiversity in international waters (which cover more than 60% of the world's oceans). Finally, although outcomes have been mixed, the UNOC has addressed critical issues such as deep-sea mining and the establishment of marine protected areas.

Sanso Longchamp AM views ocean protection as a key priority. For this reason, we are committed to donating a portion of the management fees from the Sanso Objectif 2026 fund to organisations dedicated to environmental and ocean protection: Surfrider Foundation Europe and the Institut Océanographique Fondation Albert I, Prince of Monaco.

Letter drafter on 19 June 2025