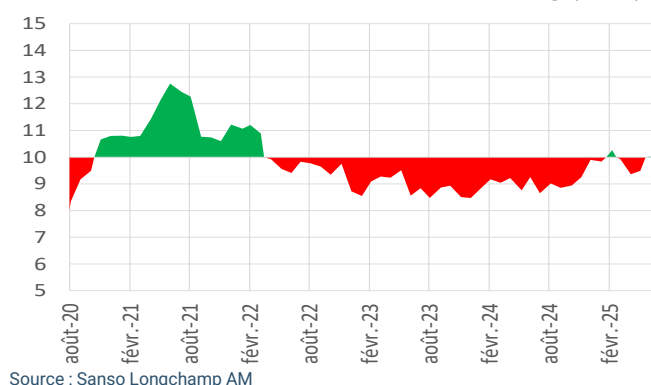


MACRO FOCUS : A WAVERING GLOBAL ECONOMY

Cyriaque DAILLAND

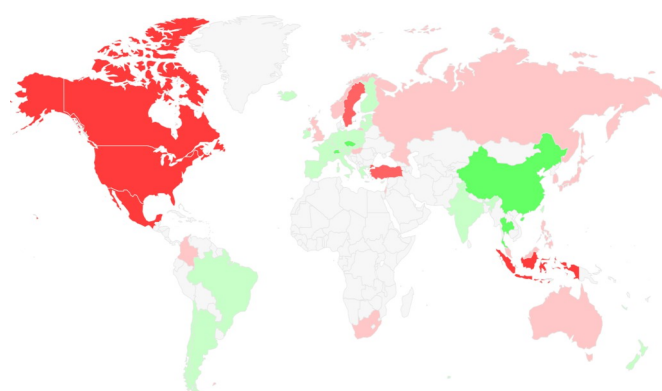
The overall score of the Sanso Macro Screening (SMS) ¹ model declined from 10.0 to 9.4. At the component level, the trend largely explains this correction, erasing the rebound observed the previous month. Among the key drivers, negative momentum is concentrated in trade and economic activity. In contrast, the global composite PMI continued to improve in June, rising from 51.2 to 51.7. However, this momentum may begin to fade under the pressure of tariffs and growing co about the environment. It is worth noting however that the price component is declining which is a positive development, though one that still requires confirmation.

Overall Score of the Sanso Macro Screening (SMS)



The U.S. score declined this month, falling from 9.0 to 7.6. This movement is explained by both the trend and the level components. Among the underlying factors, the decline is concentrated in consumption, trade, and real estate. Since the election of D. Trump, the U.S. economy has appeared more fragile. The deliberate instability introduced by the U.S. president is weighing on economic agents' confidence, thereby limiting activity. Scores for China and the eurozone have also declined, though only marginally. However, these scores remain above 10, which means the situation is not particularly worrisome right now.

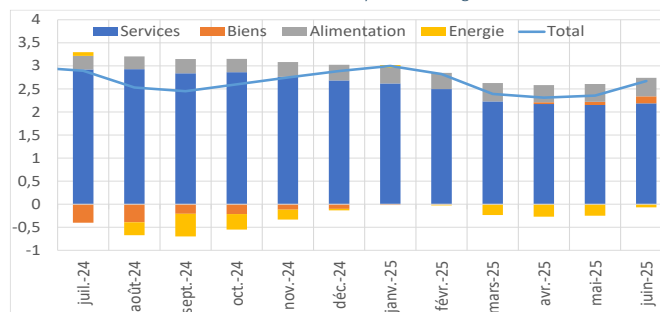
World Map of the Sanso Macro Screening (SMS)



U.S. headline inflation has plateaued over the past year, led by the declining contribution from services is a very positive sign: a year ago, it stood at 2.9, compared to 2.2 today. Typically, with such a favorable trend, the U.S. central bank could start cutting rates... but it remains constrained by consequences of tariffs. Indeed, the "goods" component is currently contributing positively, albeit modestly but the policy direction under D. Trump is likely to fuel upward pressure on prices over a one-year horizon. As a result, inflation is caught between two opposing forces.

Chart of the Month

Brekdown of U.S.S Inflation by Contributing Factors



The probability of the median scenario (moderate global growth) remains at 60%. Some sources of uncertainty such as the U.S. budget or the war in the Middle East have eased in recent weeks, which reinforces our central scenario. However, certain risk factors persist, such as tariffs or a resurgence of inflation. In this context, the probability of a negative scenario (sharp slowdown) remains plausible and stands at 40%. The positive scenario (strong rebound), for its part, appears to have zero probability.

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.

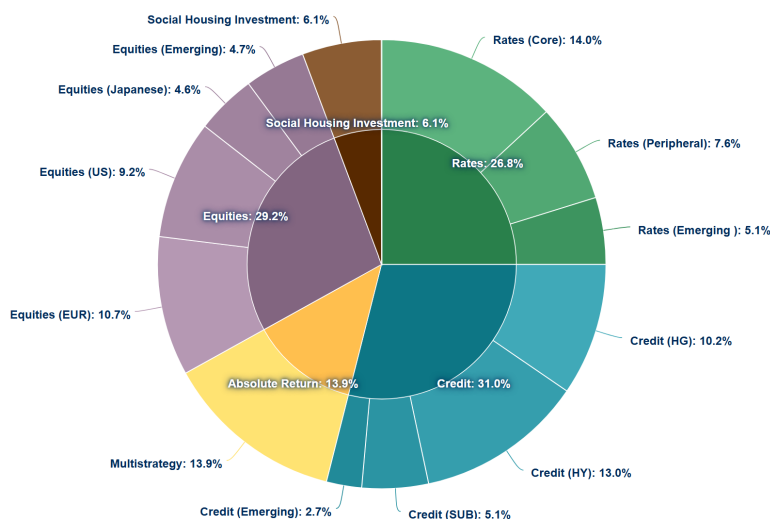
ALLOCATION FOCUS : WILL THE YEN'S DECLINE CONTINUE?

Cyriaque DAILLAND

The yen has weakened against major currencies (such as the U.S. dollar and the euro) for several years. For instance, the Japanese currency has lost nearly 40% against the euro over the past five years. Several factors explain this trend, including unfavorable carry, weak economic momentum, and political uncertainty. However, in our view, much of this negative news is already priced in. Purchasing Power Parity a common currency valuation metric shows that the yen is currently undervalued by approximately 35% relative to the euro. In addition, following a period of wait-and-see, the Bank of Japan is expected to continue raising its policy rate, thereby narrowing the rate differential with other currencies. Finally, the yen remains a safe-haven asset during periods of risk aversion, which is a valuable feature in the current environment. **In summary, despite disappointing performance in recent quarters, we maintain a constructive view on the yen.**

Position as of 07.21.2025	Negative		Neutral	Positive		Evolutions	Strategies
	--	-	=	+	++		
ASSET CLASS (Absolute)							
	Money Market		Bonds	Credit	↔		
					↔		
					↔		
	Equities			↔	No geographical preference		
BONDS (Relative)							
			Core		↔	United-States (10 years)	
			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 within the **Sanso Convictions fund**. The portfolio is built to reflect a **flexible and diversified approach**, with the systematic integration of extra-financial (ESG) criteria.



MARKET FOCUS :

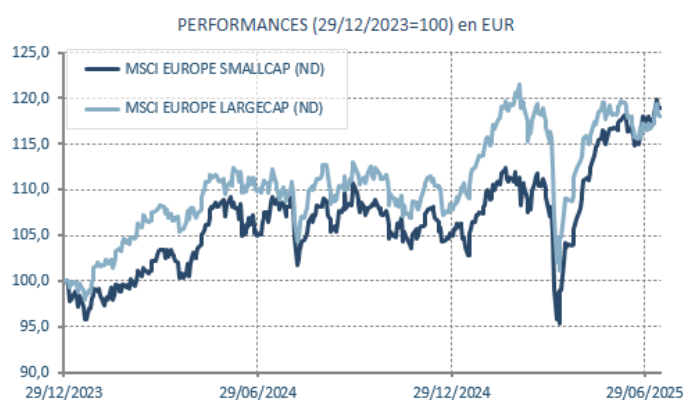
EUROPEAN SMALL CAPS : SMALL IN SIZE, BIG IN IMPACT

Michel MENIGOZ & Enzo PEREIRA

After years of being favored for their economic dynamism, European small caps have taken a back seat since 2022.

The sharp rise in interest rates in 2022, recession fears, and investor appetite for mega-caps have significantly weighed on this segment. The result: pronounced under-performance, driven by multiple compression and not by a real deterioration in fundamentals.

Since the beginning of the year, a recovery is visible. While large-cap European stocks have continued to climb, small caps are now showing a strong catch-up.



As illustrated in the chart above, the performance gap between the two segments has narrowed, with small caps significantly outperforming since the April trough a strong signal indicating a shift in market perception for this long-overlooked segment.

This recovery has also been reflected in valuations. The valuation gap between small and large caps which still exceeded 25% at the start of the year has narrowed to around 15%.

This rapid revaluation reflects a reset in market expectations and a renewed interest in what was a previously neglected segment.

Several key catalysts help explain this renewed interest, which may signal more than just a technical rebound.

First, the monetary environment is now favorable. With the key rate now at 2.00%, the ECB began a normalization phase in June following a historic tightening cycle.

However, markets remain cautious: based on implied expectations (WIRP), only one additional rate cut is currently priced in by the end of 2025.

Small caps which are more sensitive to financing costs benefit directly from this easing. The decline in rates reduces balance sheet pressure and mechanically supports the revaluation of companies previously penalized by their risk profile.

The second catalyst is the process of reindustrialization in Europe, acting as a structural growth driver. The European industrial revival is materializing through large continental programs (Green Deal, Net Zero Industry Act), as well as targeted national initiatives.

In Germany, the suspension of the constitutional debt brake allowed for the launch of a €1,000 billion public investment plan focused on energy, defense, and infrastructure.

Small caps, which are heavily represented in local industrial supply chains, are among the primary beneficiaries of this strategic pivot toward economic sovereignty.

The final driver is the gradual return of flows to undervalued segments. After years of concentrated appetite for mega-caps, investors are slowly diversifying their allocations.

The persistent discount of small caps both in absolute and relative valuation terms is drawing renewed attention, particularly from active managers seeking fundamental convexity. This movement is further supported by improving macroeconomic visibility in the eurozone.

Admittedly, part of the recent performance may be linked to technical repositioning, notably following index rebalancing and profit-taking on mega-caps.

Historically, European small caps tend to outperform over the 12 to 18 months following an initial ECB rate cut (as seen in 2013 and 2003).

The return to a less restrictive environment combined with a now acceptable risk premium and attractive valuations may lay the groundwork for a more sustainable upward cycle, especially if nominal growth stabilizes and retail or institutional flows return to this long-forgotten asset class.

Long overlooked, European small caps are once again coming into investors' line of sight. Not as a passing trend, but because the fundamentals are shifting: interest rates are easing, reindustrialization is underway, and forgotten valuations are catching attention. Quietly, they are ticking all the right boxes again. And sometimes, it's the most neglected segments that offer the best entry points.

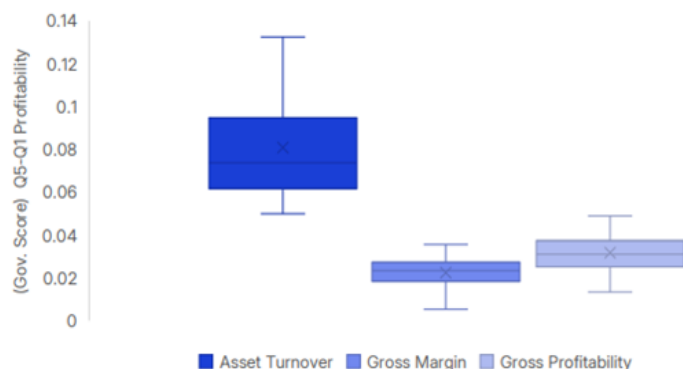
ESG FOCUS :

THE CORRELATION BETWEEN ESG RATINGS AND FINANCIAL PERFORMANCE

Edmond SCHAFF & Yaël LE SOLLIEC

In June 2025, MSCI ESG Research published a new study exploring the link between ESG scores and financial performance. The study covers over 13,500 companies over a 12-year period (2012–2024), aiming to go beyond the sole debate about market performance by examining the relationship between ESG ratings and key fundamentals such as profitability, operational efficiency, and cash flow stability.

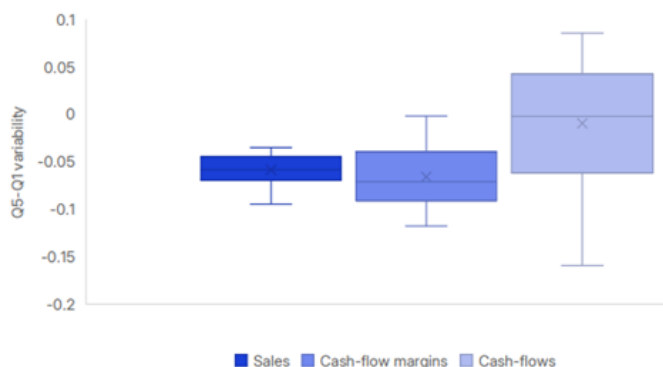
Among the three ESG pillars, **governance (G)** emerges as the factor most strongly correlated with tangible economic outcomes. As shown below, companies ranked in the top governance quintile (Q5) exhibit a significantly higher asset turnover than those in the bottom quintile (Q1). According to the authors, this greater asset efficiency may reflect stronger discipline in resource allocation, tighter working capital management, and more robust internal organization.



Average interquartile difference (Q5–Q1 governance score) for profitability indicators

These results are also accompanied by greater operational stability. The study shows that companies with the highest overall ESG scores display significantly lower sales volatility compared to poorly rated companies a trend that holds consistently over time.

The chart below reinforces this finding, highlighting that the reduction in variability is most pronounced in sales, followed by margins, and finally cash flows. Ultimately, this suggests that companies with strong ESG scores particularly in governance benefit from greater visibility over their economic trajectory.



Average interquartile difference (Q5–Q1 governance score) for variability indicators

In terms of profitability, the results are more nuanced. Companies with strong governance scores show higher gross profitability not necessarily due to better margins, but likely through more efficient use of assets.

These findings confirm the relevance of ESG ratings and especially the Governance pillar not only in addressing non-financial considerations, but also from a business performance standpoint. Integrating ESG scores into financial analysis can help capture signals of stability, efficiency, and resilience.

A strong ESG rating may reflect better risk management whether operational, regulatory, or reputational. However, the authors emphasize that the impact of ESG factors on financial outcomes can vary significantly across sectors and may not be immediately visible in market indicators or short-term financial statements. These dynamics underscore the importance of a long-term ESG perspective, tailored to each investment universe.

This study further strengthens our long-standing conviction that non-financial and financial issues are closely intertwined, and that intelligent incorporation of ESG considerations into portfolio management can enhance the risk/return profile.