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Creating Sustainable Value

ANNUAL
MARKET REVIEW & OUTLOOK

Listed assets - January 2024

An affiliate of NATIXIS INVESTMENT MANAGERS

2023: Highlights

Economic performance:

- Growth in the United States, outperforming expectations.
- Shift from stagflationary trends towards disinflation without recession in both the United States and eurozone – from a worst-case to a best-case scenario.
- Continued geopolitical instability, with less impact on the economy and markets than in 2022.

Resilience on the business side:

- American and European companies preserved their margins in a show of solidity.
- Strong productivity gains in the United States, thanks in particular to the digital and technological transition, but also a buoyant rejuvenation of industrial foundations as a result of reindustrialisation.
- Tighter bank lending in the eurozone: an area of concern.

Employment and consumption:

- Solid job market in both the United States and Europe.
- Purchasing power and consumption sustained thanks to wage increases and budgetary support.

Markets and investment:

- Strong performance by equities and debt at the end of the year.
- Spectacular volatility on rates.
- Outperformance of US markets, driven by technology stocks versus European markets, grounded in less dynamic domestic economies than in North America.

2023 in 10 Points

The bright side:

1

The resilience of the US economy

The United States ended the year with GDP[1] growth of 2.5%,[2] well above the market's expectations at the start of 2023, although it will have come as no surprise to those of our clients who perused our 2023 Outlook (Mirova looks at 2023 optimistically, through green-coloured glasses). The US economy saw considerable upside from the country's reindustrialisation, thanks especially to proactive fiscal policies resulting in a massive investment cycle and generating beneficial effects for employment and economic activity, among other things.

2

From inflation to disinflation

Fighting inflation was the top priority for central banks in 2023. However, inflation slowed significantly, touching into disinflation territory in the final quarter. Over the course of the year 2023, inflation fell to 3%[2] in the United States and eurozone, versus nearly 10%[2] a year ago. The welcome surprise lies in the slowdown of underlying inflation, which was inevitably set to fall with the normalisation of energy prices. These are all strong signals that have prompted central banks to put an end to their monetary tightening policies, despite macroeconomic indicators that have held up very well.

3

Robust corporate margins and productivity gains

American and European companies managed to sustain their margins over the year, notably by leveraging their pricing mix. In the United States, companies also posted strong productivity gains, driven by an intense reindustrialisation drive as well as by digital and technological transformation—especially in the realm of artificial intelligence.

1. GDP: Gross domestic product.
2. Source: Bloomberg.

4

Employment and consumption, solid pillars to rest on

In North America, the investment and consumer resilience in the face of inflation, attributable to cash savings and reserves supercharged by supportive policies during the covid crisis, allowed companies to maintain their profits, preserve their workforce and even grant pay raises. This has thereby strengthened the real purchasing power of employees and generated a virtuous circle.

5

A relatively painless rate hike

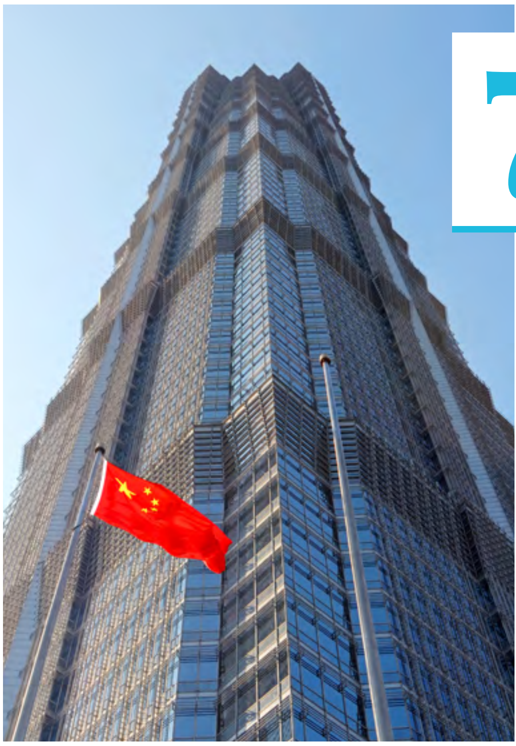
As Mirova expected, companies and individuals proved relatively immune to rising interest rates. These did not affect the productive economy, whose players were already fitted with low-interest, fixed-rate loans taken out during the crisis. Households were also able to draw on massive savings reserves. These have been exhausted in the US, but are almost untouched in Europe so far. In addition, economic agents had no interest in repaying the debts they had contracted at fairly low rates, given that they could invest their cash at very attractive levels, which de facto lowered the rates of net financial charges.

Points of concern:

6

Persistent dichotomies

Not all geographical regions have moved forward at the same rate. There remains a strong dichotomy between the United States and Europe, as well as between the industrial Northern Europe, and Southern Europe, more focused on services. Growth in the United States is now in line with pre-covid trends, while in the eurozone it has completely stalled as a result of much weaker consumer spending over the past two years and difficulties in the manufacturing sector. The divergence between industry and services is among the consequences of covid. Germany, for instance, has suffered more than Spain or Portugal, where service components predominate.



7

Real estate and growth – two challenges for China

The strong re-industrialisation of the United States, and to a lesser extent Europe – as well as that of other Asian countries such as Vietnam – is not working in China's favour.

The country is struggling to find new sources of growth as its population decline takes a toll on consumption. Furthermore, bankruptcy continues to threaten many players in the property sector. Quite simply, the country is suffering from real-estate overcapacity, combined with the slowdown and lowered financing means of households and local authorities.

Nonetheless, the country managed to end the year with growth of almost 5.5%,[3] thanks to increased government support on both the budgetary and monetary fronts.

8

Tighter bank lending

The economy and markets weathered the Silicon Valley Bank (SVB) banking crisis without too much difficulty – although the episode did have repercussions on the European markets in the spring, tapping the brakes on an upward trajectory at the start of the year. It is worth noting that the bank loan market has ground to a halt in the eurozone.

9

Japan has its own trajectory

Japan remains the only country in which the authorities, through their reforms, are attempting to orchestrate a rise in inflation. Another unique feature is that the country is set to move very gradually away from its ultra-accommodative monetary policy, abandoning negative key interest rates and pushing up long-term interest rates. This runs counter to the policies pursued in the United States and Europe.

3. Source: Bloomberg.

2023 goes out with a bang

10

A *goldilocks*[4] scenario

Data published at the end of the year confirm that inflation is accelerating downwards, while the various business figures have maintained their resilience so far and leading indicators suggest they are stabilising. Furthermore, the prospect of monetary easing from the first half of 2024, following the change in tone by the Fed[5] and, to a lesser extent, the ECB,[6] reinforces the idea of a successful soft landing for the economy, a scenario we judged likely at the beginning of 2023, and continue to favour today. The risks of a hard landing anticipated by the market in early 2023 have not materialised. This outlook is being felt across all asset classes. There is strong downward pressure on interest rates, supporting bonds and boosting equity valuations. The context is conducive to an easing of financial conditions. The year 2023 is therefore ending with a goldilocks scenario that is ideal for the markets.

4. Goldilocks: Ideal scenario characterized by a period of moderate and stable economic growth, with a balance between growth and inflation

5. Fed: Federal Reserve.

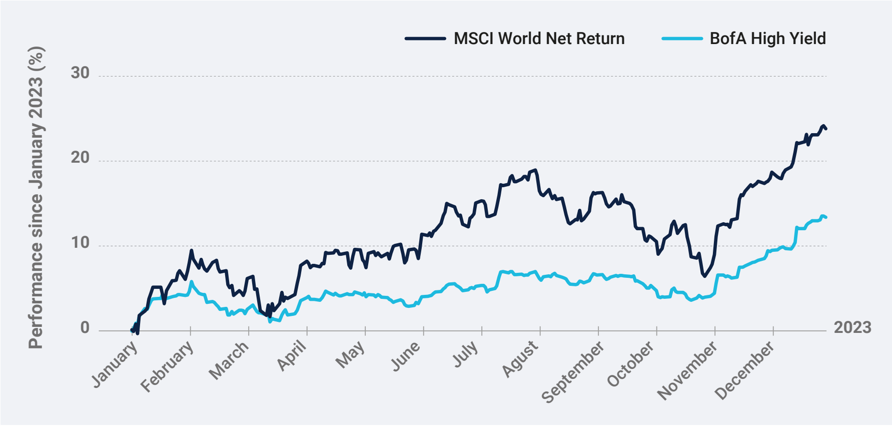
6. ECB: European Central Bank.

2023, the markets at a glance

01

The resilience of the US economy, employment's and consumption's resistance, strong disinflation, and the expectation in the decrease of central banks' key rates for 2024 explain the high performance of equities and credit over the year 2023

Evolution of the world equities index (MSCI World Net Return) and the High Yield bond index (BofA High Yield).

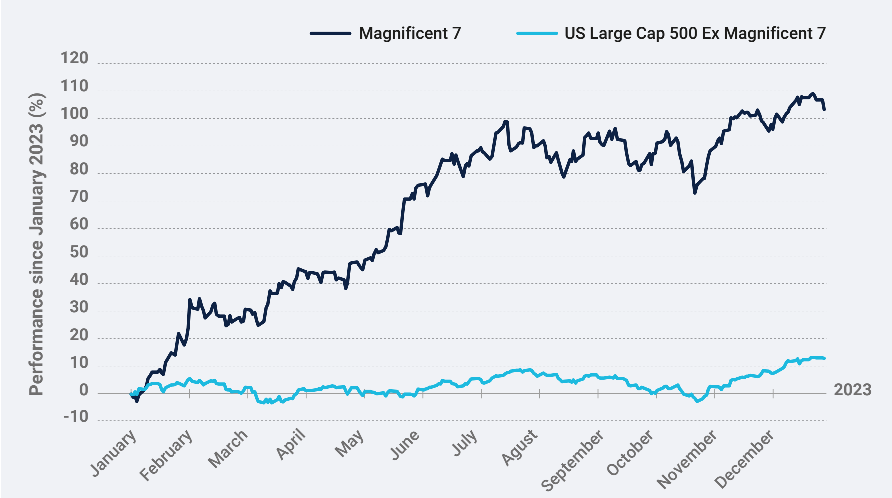


Source: Bloomberg 2023

02

In the United States, ¾ of the S&P 500's performance was achieved by just seven stocks, dubbed 'The Magnificent Seven'.

The "Magnificent Seven"[7] and US large caps excluding the "Magnificent Seven" (Nasdaq US 500 Large Cap Index).

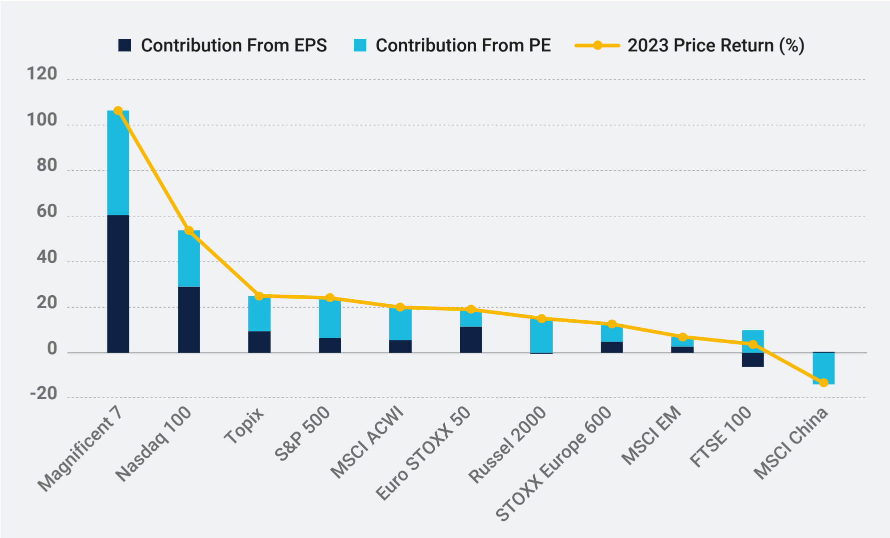


Source: Morgan Stanley 2023

7. A group of high-performing and influential companies in the U.S. stock market (Alphabet, Amazon, Apple, Meta Platforms, Microsoft, NVIDIA, and Tesla).

03 The US stock markets outperformed the European stock exchanges, thanks notably to a stronger expansion of valuation multiples (PE). Only China has seen its valuation multiples contract.

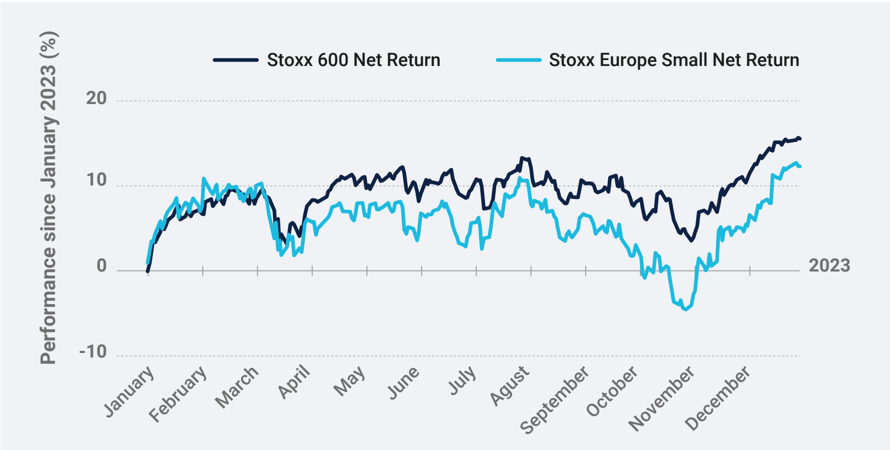
Performance of the main stock market indexes and contribution of EPS[8] and PE[9].



Source: Morgan Stanley 2023

04 The outperformance of European stock markets in early 2023 shuddered to a halt following the collapse of the US bank SVB. The year continued without any clear trend until the last few weeks of 2023. Stock markets then resumed a clear upward trajectory, with notably an outperformance of small and mid-caps.

Evolution of the main European capitalisations (STOXX 600 Net Return) and European small caps (STOXX Europe Small Net Return).



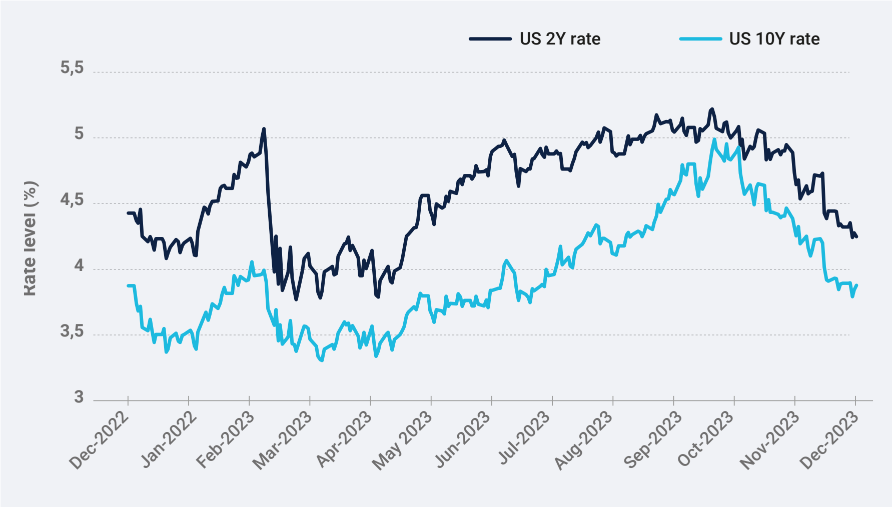
Source: Bloomberg 2023

8. EPS: Earnings per Share.
9. PE (Price-to-Earnings ratio): current share price relative to its earnings per share.

05

On the bond markets, the year was marked by high interest-rate volatility and split into two distinct periods. The first part of 2023 saw a continuation of the crash that began in 2022, except the short-lived "flight to quality" following SVB's bankruptcy – a move that rapidly vanished in the second quarter. In October, the bond market turned around and ended the year on a strong performance against a backdrop of an accelerating decrease in rates.

Evolution of US 2-year and 10-year rates.



Source: Bloomberg 2023

2024: Highlights

Base case scenario:

- A soft landing for the economy without recession.
- Stabilisation of inflation between 2% and 2.5%.
- Central Banks cutting rates in the spring
- Stabilisation of productivity gains with resilient investment and consumption levels in the United States and, to a lower extent, in Europe.

Areas of concern:

- Ability of European companies to protect margins and jobs.
- Impact of regulatory changes in Europe and the United States.
- Geopolitical and electoral uncertainties.

Markets and investment:

- Market with no clear trend during the first part of the year, diversified multi-asset class allocation recommended, then risk asset rebound thereafter.
- Attractive outlook for US equities excluding the "Magnificent Seven", small and mid-caps and some cyclical parts in Europe.
- Opportunities in ESG[10] and impact finance, with the roll-out of plans to promote energy transition against a backdrop of short-term interest rates have reached their peaks.

10. ESG: Environmental, Social and Governance.

What's in store for the Goldilocks scenario of late 2023?

Central scenario: a successful soft landing

Our base case scenario for 2024 remains that of a soft landing for the economy following the Goldilocks scenario combining disinflation and resilient growth that we adopted for 2023. We therefore expect growth to slow down on a global scale, but without falling into recession, and inflation to continue normalising towards central banks' targets.

This combination will make it possible both for workers to benefit from an increase in real wages and central banks to launch a cycle of rate cuts. Monetary easing should also help to reduce refinancing risk for companies over the next two years. We believe annualised global growth should slow over the next few quarters, heading towards 2.5% for 2024 as a whole, with 1.5% in the United States, 0.5% in Europe, where the start of the year will be sluggish, and 4.5% to 5% in China. Inflation, for its part, should recede to between 2% and 2.5% in the US and around 2% in Europe by the end of 2024.

Such a scenario calls for wage disinflation without job losses in order to maintain consumer confidence. The labour market will therefore play a key role in our expectations.

Consequently, productivity gains will be one of the key variables to watch this year. This is especially true in the United States, where productivity gains rose sharply in 2023, even reaching an astonishing 5% in the third quarter[11], and are expected to stabilise at around 2% annualised. While this may not sound like much, it is more than double the levels recorded over the 2000s and 2010s. By definition, productivity gains, if not too high, support margins and employment, making them the mainstay of growth potential over the next few years. Where do they come from? The rejuvenation of the US industrial base and the ever-wider spread of digital technologies.

11. Source: Bloomberg.

Growth based on such factors does not in itself generate inflation, provided that energy prices do not soar; it can also absorb the rise in wage costs brought about by a shrinking workforce and the repatriation of production capacity from China to the West. In the United States, inflation has plummeted from a peak of over 9% to less than 3.5% today[12]. Even in the hotel and leisure sector, where price increases tend to persist, inflation is slowing. On the wage front, labour supply and demand remain better balanced, with participation rates continuing to rise: the gap between job vacancies (labour demand) and the unemployed (labour supply) in the United States is narrowing, from over 6 million to just under 2.5 million today[12].

In the eurozone, the situation appears more complex. Several survey data (PMI[13], IFO[14], etc.) are struggling to rebound, suggesting that the stagnation will continue, especially as productivity gains in the eurozone are not exhibiting the momentum seen in the US, far from that. Services remain in a zone of contraction, while manufacturing remains stable, albeit at very low levels. New orders and production indices reinforce this negative tone, falling sharply. Industry, on course for a fifth consecutive quarterly contraction, remains a weak spot in the short term. Nevertheless, as global inventory levels recover and demand improves, a rebound over the course of 2024 is becoming increasingly likely. This would be a genuinely positive catalyst for European growth towards the end of 2024, as Europe, especially its Northern part, remains more exposed to manufacturing than many developed economies.

Meanwhile, investment will remain a drag due to factors such as the fall in housing investment and its impact on construction and the effects of rising interest rates on business spending. The construction industry alone accounts for almost 6% of European Union (EU) GDP. A 10% decrease in activity would cut growth by 0.6% and destroy many jobs, particularly in France and Germany[15]. However, in aggregate terms, the easing of financing conditions linked to the forthcoming change in monetary policy by the European Central Bank (ECB), coupled with the solidity of corporate balance sheets, should ensure that capex can be maintained in 2024 and 2025. The budgets earmarked for NextGenEU[16] strategic plans, only 20%-30% of which have been used to date, could provide further support[17].

Finally, even if job creation slows in the coming months, current levels combined with disinflation will support private consumption over the next few quarters, especially if European households spend even a small part of their savings reserves, which are at an all-time high.

12. Source: Bloomberg.
13. PMI (Purchasing Managers Index): Measure of the prevailing direction of economic trends in manufacturing.
14. IFO (Information and Forschung): Evolution of economic conditions in Germany.
15. Source: Les Échos.
16. NextGenEU (NextGenerationEU): European temporary recovery instrument.
17. Source: Les cahiers verts de l'économie.

Alternative scenarios, for better... and worse

The best: a non-inflationary 'no landing'

If the Goldilocks scenario were to continue, there would be no slowdown in the economy, and we would find ourselves with the prospect of a 'no landing' situation. In this case we would see continued productivity gains and re-industrialisation in the United States, accompanied by job creation in parallel with a fall in interest rates that would not, however, be lasting. Strong growth, full employment and an absence of inflation – with no external crisis factors – would fuel this extremely favourable environment.

However, the forces of the global slowdown and strong geopolitical uncertainties, as well as a number of more circumstantial factors, notably the expiration of certain fiscal policies in the United States, weigh against the likelihood of this scenario materialising.

Worst case scenario: an inflationary 'hard landing' or 'no landing' scenario

The increase in productivity in the United States is a positive factor for the economy... as long as it is paired with the maintenance or creation of jobs. In fact – as many examples in economic history suggest – a sudden surge in productivity thanks to digital technology could under certain circumstances lead to massive job losses, affecting young graduates even in well-paid, skilled jobs. In the short term, spectacular productivity gains would boost margins and thus maintain the workforce, but these kinds of transitions can happen much more quickly than observers suspect. Another possibility affecting employment is that pressure on company margins could lead them to cut their wage cost base. This would penalise consumption.

The combination of the previous two scenarios – in other words, increased supply thanks to productivity gains destroying jobs and weakening demand, which ultimately restricts margins and thus leads to further job losses – could even trigger a prolonged crisis of overcapacity, the worst possible situation for a developed economy. Nonetheless, this storyline seems unlikely in the short term, not least because declining demographics in most industrial nations, including China, remain a shock absorber for unemployment.

Finally, we need to consider the prospect of an inflationary 'no-landing', i.e. continued growth, as envisaged in our optimistic scenario, but this time accompanied by inflationary pressures. The Fed would then be forced to raise rates again, which would sound like an admission of failure, more or less repeating the sequence of the late 1970s, when a lull in inflation gave way to a rapid rise. This too seems unlikely: our readers well know that, in our view, Jerome Powell has designed his policy specifically to avoid having to imitate Paul Volcker.

Movers and shakers of 2024:

The heavyweights of the global economy

The behaviour of the US economy remains the factor that will have the greatest impact on our central scenario. The re-industrialisation of North America and the resulting rejuvenation of its production base are fuelling a fundamental trend that will continue to support the economy. However, the US could take a different political turn after this year's elections, particularly if Donald Trump wins. Nonetheless, it should be noted that his economic policy would remain pro-business. The productivity gains resulting mathematically from the rejuvenation of the industrial base and the boom in the digital and technology sector should therefore continue and constitute the keystone of our optimism, because this type of growth does not produce inflation, is sustainable and will benefit households and consumption.

In China, another heavyweight in the global economy, the outlook is far less rosy. Employment is suffering as a result of international competition and relocation by many countries. Added to this is local authorities' high levels of indebtedness and the ongoing slump in the real estate sector, which could last between five and ten years. All the elements seem to be in place for a structural slowdown of Chinese growth.

In the short term, however, we would stress that Xi Jinping's government has the necessary latitude to carry out fiscal and monetary stimulus measures that can soften the economic downturn. Since September, authorities have injected almost two points of GDP of potential growth into fiscal stimulus and monetary easing. The effects should be felt as early as 2024. Industrial production and consumption are already beginning to stabilise. On the real-estate front, the federal government has also appropriated some of regional authorities' debts, in order to free up resources for them to support developers. Barring an unforeseen acceleration of the fall in property prices, the Chinese economy should not pose a risk, or at least not an unforeseen risk, to global growth in 2024. The government should succeed in maintaining growth at around 4.5% to 5% in 2024, before it declines more sharply over the next decade.

Politics and geopolitics

In 2024, 40 countries or regional organisations, including the United States, the European Union, India and South Africa, will elect their leaders and/or representatives. Together, these areas account for two-thirds of the world's GDP. Almost half the world's population will be going to the polls, with possible changes of government in the offing. While everyone has the American elections in mind, there will also be voting in Portugal, Belgium, Austria, the United Kingdom, Taiwan (January), India (April-May), South Africa (May) and Mexico (June).

This context seems likely to create a social risk, as the ballot box presents an opportunity for populations to demonstrate their discontent after the inflation phase. To say nothing of the risk of protests when the results are announced, even in democracies.

Social discontent could also be exacerbated by the repeated natural disasters populations have suffered. These catastrophes are caused by one of the most important risk factors for the world in the short, medium and long term, namely climate change.

And lastly, from a geopolitical perspective, one of the main destabilising factors in 2024 will, of course, be the armed conflicts between Russia and Ukraine and between Israel and Hamas, which some will see as proxy wars between the West and the informal trio of China, Iran and Russia. The potential for further regional destabilisation therefore remains, as possible setbacks in Ukraine, hard on the heels of those in Afghanistan and Syria, would create a breach for any number of powers tempted to believe that the US have grown less capable of intervening on a global scale. Taiwan and Yemen spring to mind, of course, but also Turkey, which holds a lot of cards in its strategic hand.

Meanwhile, developments in the Middle East conflict could prove critical if the situation were to flare up because Iran becomes more actively involved, at its own initiative or otherwise. It certainly does not seem to us to be in Iran's interest to escalate the conflict to the point where a direct military threshold is crossed, just as it approaches nuclear power status, but it will still be tempted to use the weapon of blocking the Strait of Hormuz for the long term. This would push tensions beyond the regional framework, with serious consequences for world trade and oil transport, leading to a spike in energy prices.

Business

We will have to keep a close eye on companies' ability to protect their margins, especially as the consensus is for a slight increase in margins on both sides of the Atlantic. Over the last few quarters of 2023, US companies achieved productivity gains averaging 4% on an annualised basis[18]. The number of quarters over which companies manage to sustain this pace, before stabilising at lower levels, will quickly become decisive for the direction of the economy and growth.

Furthermore, although the situation of businesses in 2024 will remain solid overall, a wall of debt in 2025 is to be expected. This is the result of the many loans taken out between 2018 and 2020, when interest rates were historically low, as well as loans subsequently granted during the covid health crisis.

18. Source: Bloomberg.

Regulations

In 2023, three-quarters of the S&P 500's performance came from seven technology stocks[19], known as *The Magnificent Seven*. Stringent regulations on technology and artificial intelligence could create turbulence. Generally speaking, the US presidential election could have regulatory repercussions depending on who is elected. Donald Trump, for instance, is inclined to favour the pharmaceutical and fossil fuel sectors. However, these choices have rather negative consequences in Europe. Regulatory developments in 2024 will therefore be closely linked to the year's political agenda.

As a reminder, the Trump programme includes a revival of the trade war, which the Biden administration has slightly curbed in recent months, increasing customs duties to ~10% on most imports, and eliminating imports of essential Chinese goods such as electronics, pharmaceuticals, steel, and so on within four years. He also plans to leave again the Paris Agreement again, to make the United States the country with the cheapest energy in the world, to implement new tax breaks for oil, gas and coal producers and to abandon the 2030 target of 54% of new vehicle registrations being battery electric vehicles (BEV).

Another not insignificant point is the entry into force of the CSRD[20] in the European Union on 1 January. Large, listed companies will have to comply with this European directive on the double materiality requirement. From 2025, these regulations will also apply to smaller companies.

The world's major transformations: climate and demography

Large-scale climate-oriented policies and investment plans will continue to have a major impact on the global economy and businesses. Nuclear power is increasingly solicited, both in Europe and beyond. In the United States, renewable energies, clean water and sanitation are priorities in terms of sustainability and the environment. And, while climate change adaptation is a long-term shift, its effects are also being felt on the economy in very tangible ways.

The same applies to another key global trend: demographic change. On the one hand, population ageing in the West, Japan and China will require suitable responses in terms of healthcare and services, while weighing on discretionary consumption in the long term, and tightening the labour supply, thus reducing the possibility of underemployment. On the other hand, it also means that generation Z (born between 1997 and 2012) will have a greater influence on spending and consumption in the years ahead. Lastly, growing access to electricity, the internet and sanitation offers hope that the most vulnerable sections of the population may be gradually lifted out of poverty.

19. Source: Bloomberg.
20. CSRD (Corporate Sustainability Reporting Directive): European directive setting new standards and obligations for non-financial reporting.

Our market and investment outlook

Take a break and start over

Given our scenario of a soft landing, disinflation and cuts to central bank interest rates starting in the spring, we believe it is worth investing in risky assets (equities and credit) this year. All the more so as these asset classes could benefit from the large sums currently in the money market – several trillion dollars – which are now likely to pour into the capital markets.

Equities: major trends set the tone

One of the key trends for equity markets in 2024 will be the resilience of the US economy. While most of the upside in 2023 was limited to the Magnificent Seven, we believe that sector leadership should extend beyond technology, with some parts of the coast still attractive in terms of valuation. In addition, US re-industrialisation is only just beginning, which should create opportunities as companies invest in new production sites and secure their supply chains. The US government has also made health one of its priorities.

In Europe, we believe that small- and mid-caps could participate to a greater extent in the upward rally over the coming quarters and thus generate outperformance. Even if, in the short term, the macro slowdown means we need to remain selective. Also, the valuation of certain cyclical sectors incorporates a prolonged stagflation[21] scenario, which we feel is too negative given the disinflation underway and the macroeconomic rebound expected in the next 6-12 months. In our view, some cyclical stocks in the banking, property, industrial and consumer discretionary sectors will have a high upside by the end of 2024. Finally, counter-cyclical effects should be fully felt in Europe and be favourable to our ESG themes, particularly the environment and energy.

21. Stagflation: High inflation and low or no growth.

Fixed Income: understanding the new equilibria

As available savings shrink and investment needs remain high, a long-term premium on interest rates develops. This new balance between diminishing savings and expanding investment will tend to limit the effects of key rate cuts and will invite a need to be attentive to the steepening of the yield curves. Disinflation will encourage a drop in short-term rates, however keeping a close eye on long-term rates becomes key, as resilient growth should limit their fall – and could even make them rise faster than what the market has in mind. It's also wise to bear in mind that drawing down central banks' balance sheets will also play a part in this pageant, creating selling pressure on the long end of the curve. In terms of duration, we remain positioned on the decline of both short and long-term rates, and on a steepening of the curves. Note however that the fall in long-term rates, given the various forces at play, seems unlikely to be very sharp. This will affect the valuation of equities and stifle their potential to some extent.

Focus on ESG and impact

The theme of transition and impact finance performed very well between 2017 and 2021, before being put to the test in 2022 and 2023. Impact finance has now reached maturity and is fully understood and embraced by investors. In 2024, impact and transition finance will continue to benefit from government investment plans. Indeed, only 20 to 30% of the European Union's recovery plans have been deployed so far[22]. In terms of business sectors, this should particularly be to the advantage of renewable energies (solar, wind, hydrogen), energy efficiency, building renovation, water and waste management, and energy storage and distribution.

22. Source: Bloomberg.

Conclusion

2023 defied market forecasts because, as we predicted a year ago, the world avoided the disaster scenario of a hard landing, even if the year was not without its challenges and unexpected events.

Could we be experiencing a period similar to that immediately following World War II (what the French call the *Trente Glorieuses*), which were partly attributable to a forced renewal of the American industrial base during the war, and then of the European industrial base following the war as part of the Marshall Plan?

Productivity gains combined with near-full employment are a reminder of this golden age, which also benefited from demographic dynamics that are now unattainable. The children of the *Trente Glorieuses* and their own offspring have not ensured the renewal of our populations. Our vision for 2024 therefore retains the optimism already expressed for 2023, bearing in mind, however, that political and above all geopolitical risks could change the situation and tip the world upside down at any moment, as several powers clearly want to test American tutelage, particularly on the monetary front, a sensitive area due to the yawning deficits racked up by both Trump and Biden administrations.

On the markets, this optimism was only felt in the last few weeks of 2023, and has already consumed a portion of the upside potential associated with lowering rates and a change in the tone of central banks against the backdrop of a soft landing of the economy. We recommend a balanced multi-asset position for the start of 2024, to be adjusted as events unfold over the course of the year, in particular changes to interest rates, the US elections and the situation in the Persian Gulf.

Market views Summary

Summary

ASSET CLASS	LONG TERM	CONVICTION	COMMENTS
Equities	○—○—● =	strong	• Equities to outperform in the medium term against a backdrop of disinflation, easing monetary policy and a global macroeconomic rebound (especially in manufacturing). • Range trading[23] scenario favoured over the next few months following the recent end-of-year rally and aggressive repositioning of investors on this asset class.
Credit	○—○—● =	moderate	• Long on credit because of substantial carry with spreads remaining attractive. Technical factors to remain favourable (supply/demand imbalance, relatively little refinancing in 2024). • Moderate rise for default rates in a soft-landing scenario. • Range trading scenario favoured over the next few months.
Duration	○—○—● =	moderate	• Long duration due to the end of the monetary tightening cycle, slowdown and continuing disinflation. Attractive real interest rates in the absence of US growth re-acceleration. • Beware, however, of potential short-term repricing linked to adjustments in the timing and number of key rate cuts expected for 2024 (Fed and ECB).
Cash	●—○—○ =	moderate	• Attractive risk/return trade-off in the short term but likely to suffer from a reallocation towards risky assets as key rates fall and the US soft-landing scenario materialises.

Stocks

SEGMENTS	LONG TERM	CONVICTION	COMMENTS
US	○—○—● =	moderate	• Successful soft-landing scenario, continued disinflation justifying an easing of monetary policy in mid-2024. End of inventory destocking, should prompt a manufacturing rebound in the second half of the year. • Unfavourable valuations (risk premium, price/earnings ratio, etc.) partly offset by attractive relative earnings revisions and broadening of sector leadership beyond technology. • Beware of specific risk associated with over-representation of the Magnificent Seven.
Euro	○—○—● =	strong	• Macro stagnation, followed by a rebound in H2. Probability of an ECB rate cut before the Fed's. • Attractive valuations, under-held market, potential upturn in world trade favouring European exports.
United Kingdom	○—●—○ =		• Low growth outlook and persistent high inflation justify very attractive valuations. • Defensive bias (health, consumer durables).
Japan	○—○—● +1	moderate	• Continued rerating[24] linked to private sector deregulation (improved governance). • Rising wages and inflation expectations should support consumption. • The short-term risk remains a potential tightening of monetary policy, leading to an appreciation of the yen.
Emerging markets	○—●—○ =		• EPS[25] growth forecasts for 2024/2025 are somewhat over-optimistic, while the trend of revisions remains negative compared to developed countries . • On the positive side, some emerging market central banks are beginning to cut interest rates, also risk premiums and valuations are reasonable. Waiting for a Fed pivot to be structurally overweighted.
Growth v. Value	○—●—○ =		• The end of the rise in real interest rates and expectations of monetary easing are positive catalysts for the outperformance of growth versus value. A soft landing followed by a rebound in economic activity should favour value sub-funds whose valuations reflect a recession scenario. • The result is a barbell positioning, comprising both high-growth companies (technology, renewable energies, etc.) and companies at very low valuations (banks, real-estate companies, utilities, etc.).
Quality v. high volatility	○—●—○ =		• Balanced position at this stage, so long as investors see bad macro news as a positive catalyst for a future central bank pivot ("bad news is good news"). • Waiting for a change in market narrative ("bad news is bad news") and ("good news is good news") to drive the quality bias vs high volatility.
Small caps v. large caps	○—○—● +1	strong	• Small-cap valuations should be attractive in relative terms, limiting the potential for underperformance. Impact of rising interest rates largely priced in. • Strengthening small caps while remaining selective in the short term.
Cyclical v. Defensive	○—○—● =	moderate	• Potential rebound in manufacturing PMIs[26] over the next 6 months, recovery in world trade, and more accommodating monetary policies. Discretionary consumption supported by rising real wages. • Balanced positioning in the short term.

23. Range trading: occurs when a security trades between constant high and low prices over a period of time.
24. Rerating: Valuation of the new value of assets, following a major transaction.
25. EPS: Earnings per Share.
26. Manufacturing PMI (Purchasing Managers Index): Composite index showing the economic health of the manufacturing sector.

Credit

SEGMENT	LONG TERM	CONVICTION	COMMENTS
Investment Grade US	○●○ =		• Preference for EUR Investment Grade (IG) in terms of valuation. Lower default rates. • Refinancing requirements: 2024 manageable; 2025/2026 more complicated.
High Yield US	●○○ =	moderate	• Leverage at the high end of historical average, while interest cover ratios will dwindle due to declining revenues and margins. • Spreads on BB and B issuers are below their historical average since the 2000s.
Investment Grade Euro	○○● =	moderate	• Quality assets at reasonable prices that should outperform in the event of a soft landing and falling interest rates. • Preference for Euro IG over US due to a favourable relative ratings upgrade dynamic and broader spreads. • Short-term weakness is possible, range trading strategy directly linked to interest rate volatility.
High Yield Euro	○○● =	moderate	• Favourable technical factors (supply/demand imbalance, no short-term refinancing problems). Relative valuations of High Yield vs Investment Grade more favourable in EUR than in US. Preference for EUR hybrids. • Short-term weakness is possible, range trading strategy directly linked to interest rate volatility.

Duration

SEGMENTS	LONG TERM	CONVICTION	COMMENTS
2 years US	○○● =	moderate	• End of Fed tightening cycle, attractive real rates as disinflation continues and macroeconomic slowdown. • 4 rate cuts expected, including the first in June. Aggressive market pricing on this point limits short-term potential.
10 years US	○○● =	moderate	• Renewed interest in sovereign bonds, power of diversification in the context of a macroeconomic slowdown and continued disinflation. • Structural selling pressure (supply/demand imbalance, upward revision of potential growth, etc.) is reinforcing our bull steepening scenario[27]. • As a result, the potential for a fall in long-term yields is limited.
2 years German	○○● =	strong	• End of the ECB tightening cycle: headline and underlying annualised inflation over the last few months close to target, even if base effects will be less favourable at the start of 2024. • 5 rate cuts expected, starting in June.
10 years German	○○● =	moderate	• Positive diversification effect of sovereign bonds in the context of a macroeconomic slowdown and continuing disinflation. • *Bull steepening* scenario resulting from further normalisation of monetary policy, coupled with a slight macro rebound in H2. • In the short term, breathing space after the end-of-year rally.
Peripheral debt Europe	○○● =	moderate	• Lower interest rates favour the sustainability of peripheral debt. • Falling inflation and the status quo regarding the reduction in the ECB's balance sheet reduce short-term concerns about Italy.
United Kingdom	○○● =	moderate	• Potential growth in 2024 low, disinflation continuing from a higher level than in other developed markets; via lower energy prices and gradual normalisation of the labour market. Bank of England pause very likely, in line with other central banks; attractive carry, particularly on the long side. • In the short term, uncertainties surrounding fiscal stimulus plans are holding back the fall in interest rates.
Japan	●○○ =	moderate	• Rising inflation expectations. Potential rise in key rates. End of yield curve control? • In the short term, macro dynamics are calming the uptrend.
Emerging markets	○●○ =		• On the positive side, disinflationary momentum and key rate cuts in some emerging markets, but moderate potential for appreciation against USD cash in the short term. • For local currencies, currency risk linked to changes in monetary policy. Limited potential after the recent rebound, more favourable in the long term.

Cash

SEGMENTS	LONG TERM	CONVICTION	COMMENTS
EUR/USD exchange rate	○●○ =		• The dollar's downside potential is limited in the short term, given the repricing of recent months and the intensifying disinflation process in the eurozone.

27. Bull Steepening: Steepening of the curve by lowering short rates.

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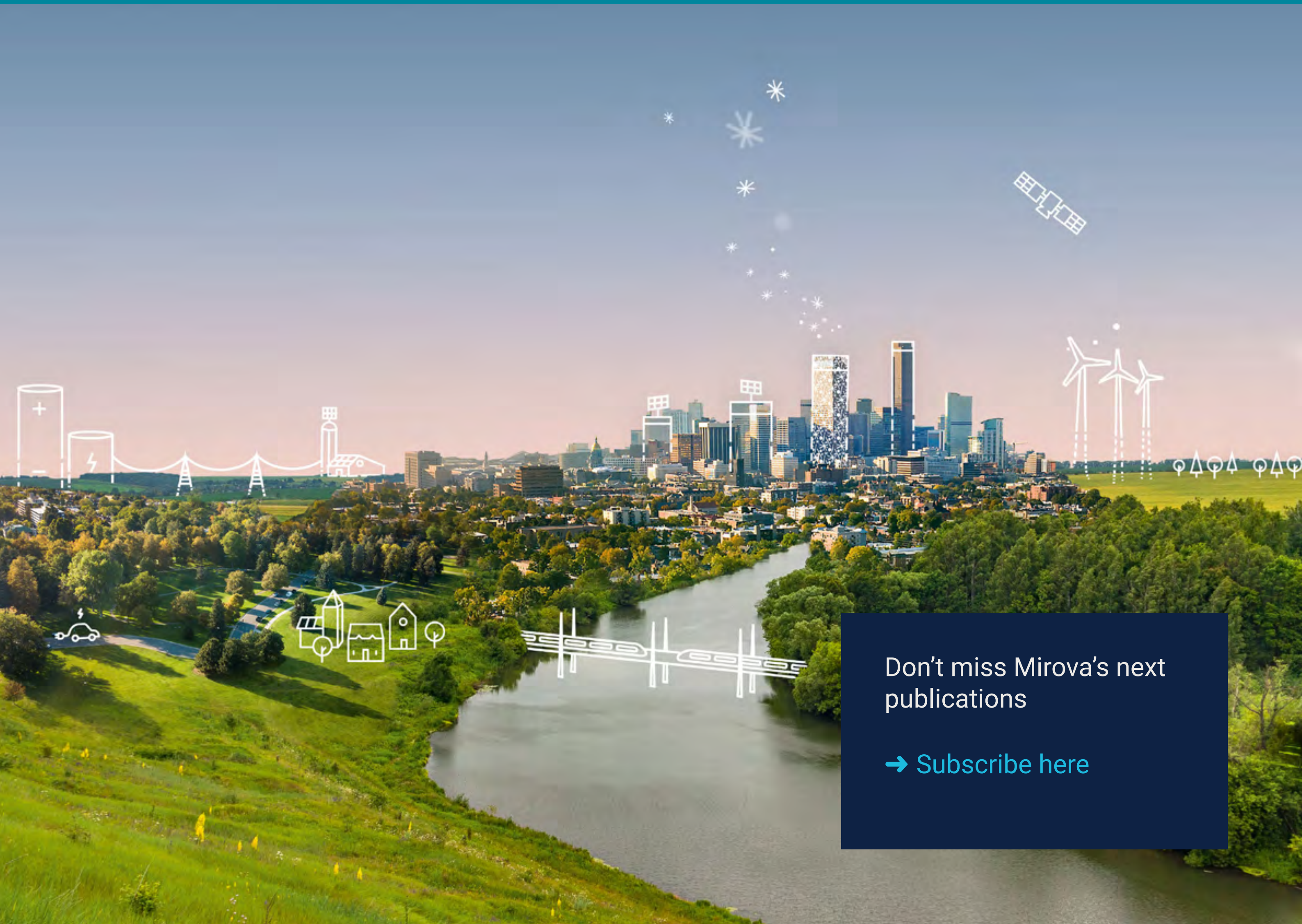

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