CANDRIAM
A NEW YORK LIFE INVESTMENTS COMPANY

Candriam Sustainable Asset Allocation

Market Overview

Most regional stock markets closed the month of February with positive performances, amid resilient economic data and robust, albeit concentrated, earnings reports, especially in the US. This economic resilience, alongside signs that inflationary pressures have not yet entirely dissipated, suggest the Federal Reserve bank will likely be on hold longer than markets have hoped for. By the same token, the euro zone economy stabilised in Q4 2023, while preliminary figures for headline inflation eased. Yet, some ECB policymakers noted that they would "not get full comfort within a reasonable period".

Given the decreased likelihood of imminent rate cuts, fixed income markets gave back performance as yields rose. Helped by ongoing spread compression, high yield and Emerging debt bond markets outperformed.

Within equities, the US market stayed ahead, buoyed by small and mid-caps and the technology sector. Japan continued to outperform as well, with the MSCI Japan index reaching a new all-time high. In contrast, UK stocks lagged. Within emerging markets, Latin America lagged the Asian region where India's GDP growth rate positively surprised forecasts and Chinese equity had a small rebound. Authorities in Beijing have intensified reform measures to enhance favourable economic conditions. Anticipation is growing for additional support in an attempt to bolster targeted growth initiatives and confidence in the market.

Portfolio Highlights & Strategy Review

A soft-landing/ongoing disinflation scenario in the United States remains our most likely scenario in spite of the unsteady last leg of the path from a 3% to a 2% inflation rate. The persistence of elevated inflation suggests that the Federal Reserve may not be under immediate pressure to implement monetary easing. As the path seems to be bumpier in the US than in the euro zone, we keep a long duration via European sovereign bonds.

Within equities, we have a preference for the US and are cautious on Europe. We expect the latter to remain in a state of stagnation for most of the year with last European earning season among the weakest since several years.

On the other hand, the US equity market has had an incredible rally since October. The current momentum is strong thanks to positive economic surprises and the incoming rates cuts expected. The earning season has also supported the rise in equity markets, albeit highly concentrated in the Magnificent 6 (excluding Tesla). We are neutral on the rest of the world, i.e. Emerging markets and Japanese equities.

The fund recorded a positive return, in line with the benchmark. If our global allocation effect is neutral, our selection was positive thanks to our overweight on emerging bonds and Investment Grade credit.

Fund Outlook

The transatlantic debate on central banks' monetary policy has evolved to being just a question of timing and magnitude as the odds remain undoubtedly in favour of a soft landing. The US labour market remains strong and forced us to re-assess inflation expectations, but the unemployment rate is moving in the right direction, even if slowly. Chairman Jerome Powell has confirmed cuts in 2024 while the European Central Bank has opened the door for cuts starting in June. Short-term yields have aligned with the European Central Bank and the Federal reserve bank interest rate cuts for 2024.