

ACT Multi Asset Optimal Impact Strategy

Impact Investing market estimated at \$1.5 trillion 2024

- Financial markets faced pressure in October as investors tempered September's optimism.
- Equity performance was mixed, with "Energy Efficiency" gains offset by losses in other Impact themes; Impact bonds also slightly detracted from performance.
- After 15 years, the Impact Investment market addressing global challenges is valued at over \$1.5 trillion.

Laurent Ramsamy, Lead Portfolio Manager

What is happening?

The pace of growth in the eurozone picked up slightly whilst growth in the United States remained robust, fuelled by household consumption. Despite a few bumps in the road, inflation is less of a concern, allowing central banks to continue cutting key interest rates. The US presidential race draws to a close with an outcome that could have a major impact on the global economy.

The US economy continued to demonstrate notable resilience with GDP expanding at an annualised rate of +2.8% in the third quarter, supported by robust consumer spending. This context should reinforce expectations of gradual rate cuts by the Fed for instance 25bps at the beginning of November and again in December if the labour market continues to ease. On the political front, the polls for the upcoming presidential election show Kamala Harris and Donald Trump neck to neck.

In the eurozone, 3rd quarter growth improved slightly due to a moderate rebound in consumption. With a disinflationary dynamic well underway, the ECB decided to continue to normalise its monetary policy by cutting interest rates by 25 bps to 3.25%. In the UK, the Labour government's budget introduced a significant stimulus package, with a massive increase in public spending over the next five years financing by a tax increase but also by increased debt. In response to these budgetary pressures, the Bank of England is likely to maintain a cautious approach with regards to future rate cuts.

China surprised slightly to the upside with growth of 4.6% annual growth in Q3, driven by a rebound in investment and industrial production. Retail sales rose by +3.2% but remains crimped by the fall in property prices. Faced with these challenges, the authorities are stepping up their support, in particular to revive property and household demand.

The Bank of Japan maintained its key rate at 0.25%, confirming its cautious and gradual approach. Despite the positive outlook, the BoJ expects a moderate economic recovery.

Most equity markets were under pressure in October as investors scaled back on September's optimism amidst disappointing earnings especially in Europe. Asian stock markets diverged again as the Japanese equities moving slightly higher in reaction a much weaker Yen whilst stock markets in China declined, retracing most of last month's gains given the lack of specific policies to support the stimulus measures announced in September.

Sovereign bond markets suffered as government bond yields spiked in October in reaction to US fiscal uncertainty despite the European Central Bank (ECB) delivering another interest rate cut. Credit markets suffered from higher yields despite spreads holding relatively steady.

Meanwhile, at various Impact Investment forums last month, 2024 was celebrated as the 15th anniversary of Impact Investing, launched at the 2009 UN General Assembly in New York to address the UN's Sustainable Development Goals through financial investments. While acknowledging that much progress is still needed given the scale of global challenges, the strides made so far are worth celebrating, beginning with the market's growth. According to the latest GIIN report*, the impact investing market is now valued at \$1.571 trillion USD, allocated toward solutions addressing environmental and social challenges to achieve the UN's Sustainable Development Goals.

Positioning and performance:

	ACT MA OPTIMAL IMPACT		
	Dec-23	Sep-24	Oct-24
Net Equity	44,2%	54,1%	55,1%
Equities	44,2%	54,1%	55,1%
Equities derivatives	0,0%	0,0%	0,0%
Risk Mitigation Strategies	0,0%	0,0%	0,0%
Fixed Income	50,5%	45,1%	43,8%
Govies	17,8%	12,5%	12,1%
Bond Derivatives	0,4%	10,5%	17,1%
High Yield Credit	1,8%	2,5%	2,6%
Investment Grade	28,6%	26,6%	25,5%
Emerging Debt	2,4%	3,5%	3,6%
Diversification	0,0%	0,0%	0,0%
Cash & Money Market	5,2%	0,8%	1,1%

Although equity performance benefited from gains in planet-oriented themes like "Energy Efficiency" (driven by tech companies such as ASML, Capgemini, Applied Materials, and Carrier) and "Recycling & Waste Reduction" (led by waste treatment companies), these were more than offset by negative returns in other planet-based themes, including "Low Carbon Transport," "Agriculture & Sustainable Food," and, to a lesser extent, "Renewables. In social-oriented themes, "Healthcare Solutions" and "Empowerment" (e.g., AstraZeneca) detracted from performance, while themes like "Safety & Security" and "Social Inclusion" were relatively flat.

On the fixed income side, our Impact bond bucket slightly detracted from performance as bond yields rose amid US fiscal uncertainty ahead of the presidential election, despite the European Central Bank (ECB) implementing another interest rate cut. Nonetheless, appetite for Impact bonds remained strong in October, with Green and Sustainable bond sales up +12% year-on-year, with Green bonds representing over 50% of the total.**

In October, we increased our exposure to impact equities whilst the allocation to impact bonds remained relatively stable.

Focus stock of the month:

paloalto : A global provider of cybersecurity solutions for customers including include enterprises, organisations, service providers and government entities. As one of the leading global players in cybersecurity, Palo Alto makes a positive contribution to SDG 9.1 (development of sustainable, resilient and inclusive infrastructures), through ensuring that digital infrastructure (provided by companies, governments and other organisations) remains reliable and resilient for users. The company also makes a broader contribution to SDG 16 (Peace, Justice and Strong Institutions), where its solutions are vital in preventing and reducing the threat from cybercrime.

Outlook:

Bond investors' unusual degree of optimism led the US bond market to persistently misunderstand the Fed's intentions for monetary policy easing. The recent sharp rise of US yields has proven to be just another iteration of misplaced optimism as US bond yields rose sharply, reflecting unwinding of long positions, in reaction to data indicating a resilient US economy and sticky core inflation. Meanwhile, the macro situation in the euro zone is increasingly calling for a more pro-active stance at the ECB with higher US yields dragging Euro yields higher thus providing an improved entry point to increase duration.

Our positioning in global equity markets, with exposure to rate sensitive equity sectors, is benefiting from the current macro back-drop. Our attention is now focused on the 3Q earnings season for which the bar is relatively low with good potential for upside from here.

Lastly, following the decisive results of the US elections; Trump's policy mix are predicted to be more inflationary thus putting pressure on US bond markets.

November will likely be dominated by reports from COP 29 where world leaders will gather in Azerbaijan to discuss climate commitments and chart the next steps to limit global warming as urgently as possible. The focus will be on raising ambitions, finance and accelerated action. A headline goal of this conference is to agree on a new financial target to support developing countries in their climate actions by 2030 estimated between \$6-14 trillion depending on the reports even though these are likely to be a vast underestimation. Nevertheless, success depends on raising ambition and financing but also on understanding and addressing the implementation gaps. Tripling renewable power generation capacity and doubling energy efficiency as a baseline are deemed vital to cutting greenhouse gas emissions. The World Economic Forum also stresses the need to ensure a just transition so that no one is left behind in the swift pace of change needed toward a net-zero transition***. As such, AWF Act Multi Asset Optimal is part of this trend in continuing to address the ongoing planet challenges by investing in providers of solutions towards decarbonisation including Renewables, Energy Efficiency, Green Buildings and Low Carbon Transport in both the developed but also developing world as well as investing in companies and projects that address the biggest barriers to equity and prosperity by focusing on companies and projects that provide a positive impact in terms of Healthcare solutions as well as companies promoting social inclusion or promoting empowerment within underserved communities.

*"Sizing the Impact Investing Market 2024" GIIN 31/10/2024

**Bloomberg 08/11/2024

** "COP29: Why new climate pledges need ambition, finance and action to succeed" World Economic Forum 11/11/2024

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