

ACT Multi Asset Optimal Impact Strategy

Donald Trump's potential return to the White House could further energize opposition to transition to low carbon economy.

- Financial markets rebounded in November.
- Equity performance was slightly positive, driven by gains in "Low Carbon Transport" and "Resource Scarcity," while Impact bonds also contributed modestly.
- Despite the current context, sustainable and Impact funds continue to attract net new money.

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What is happening?

The U.S. economic outlook will largely depend on the implementation of new policies, which may provide a modest boost to growth. However, supply-restricting measures are expected to weigh on economic performance, while inflation is likely to remain stubborn due to the overall inflationary nature of these policies. As a result, we anticipate U.S. GDP growth to slow from 2.8% in 2024 to 2.3% in 2025 and further to 1.5% in 2026.

In the Eurozone, economic activity is expected to remain subdued but should see some gradual improvement despite a weakening global environment. Rate cuts by the European Central Bank (ECB) are likely to support household spending and encourage investment by 2026. However, rising geopolitical uncertainty and political fragility could pose risks to this recovery. We project Eurozone GDP growth at 0.8% in 2024, 1% in 2025, and 1.3% in 2026.

China faces significant internal and external challenges to its growth. To manage this slowdown, the government will likely continue providing stimulus, aiming for a controlled deceleration. We forecast GDP growth in China to slow from 4.9% in 2024 to 4.5% in 2025 and 4.1% in 2026.

Emerging markets, meanwhile, are grappling with a difficult combination of worsening external conditions, tighter global financial environments, and the challenge of managing fiscal and monetary policies effectively. These pressures will require careful navigation to sustain growth.

On the monetary policy front, central banks are expected to adopt a cautious approach to easing. In the U.S., the Federal Reserve has already cut interest rates by 25 basis points in November and is likely to do so again in December. The ECB is projected to continue with consecutive rate cuts through mid-2024, while the Bank of England will likely ease policy gradually. The Bank of Japan is expected to raise its policy rate in 2025, completing this adjustment by 2026.






Global equity indices rebounded in November with the MSCI World index in local currency up +4.8% led by significant gains for US equity markets but performance was mixed across other markets. US equities rebounded,

buoyed by expectations that President-elect Trump's pro-business policies will boost the prospects for both cyclical and smaller cap domestic focused stocks. On the other hand, European equities lagged on mounting concerns over potential US tariffs, a weak economic backdrop and a more fraught political backdrop. Asian and Emerging stock markets were mostly under pressure.

Most sovereign bond markets improved in November as yields moved lower after spiking at the beginning of the month on the back of a Donald Trump victory in the US presidential elections. Credit markets benefited from lower yields and even tighter spreads in particular for US High Yield.

Meanwhile, Donald Trump's imminent return to the White House, with a vow to support the fossil fuel industry, could further fuel the backlash against "woke" capitalism. Nevertheless, large institutions and corporations - where strategic planning must stretch beyond the terms of most political incumbents - appear to remain committed to their sustainable objectives. Nevertheless, there is an increasingly common practice of companies failing to report their ESG or sustainable initiatives. This may lead to more "greenhushing" in an attempt to avoid attracting criticism from anyone on either side of the political divide*.

Positioning and performance:

		ACT MA OPTIMAL IMPACT		
		<i>Dec-23</i>	<i>Oct-24</i>	<i>Nov-24</i>
	Net Equity	44,2%	55,1%	59,8%
	Equities	44,2%	55,1%	59,8%
	Equities derivatives	0,0%	0,0%	0,0%
	Risk Mitigation Strategies	0,0%	0,0%	0,0%
	Fixed Income	50,5%	43,8%	39,4%
	Govies	17,8%	12,1%	10,1%
	Bond Derivatives	0,4%	17,1%	10,7%
	High Yield Credit	1,8%	2,6%	2,4%
	Investment Grade	28,6%	25,5%	23,5%
	Emerging Debt	2,4%	3,6%	3,4%
	Diversification	0,0%	0,0%	0,0%
	Cash & Money Market	5,2%	1,1%	0,8%

Equity performance benefited from gains of most Planet based themes such as "Low Carbon Transport" (driven by Tesla), "Recycling & Waste Reduction" (led by waste treatment companies) and "Energy Efficiency" despite the flat performance of "Sustainable Materials" (dragged down by the drop of Air Liquide) and the sell-off of some pure-play "Renewable Energy & Infrastructure" names following Donald Trump's victory in the US presidential elections. Within social-oriented themes, "Safety & Security", "Healthcare Solutions" and "Social Inclusion" all contributed to performance thus compensating for the flat performance of our "Empowerment" theme.

On the fixed income side, our Impact bond bucket had a slight positive impact on performance given the drop of bond yields dropped over the month as investors were reassured by president-elect Trump's appointment that of Scott Bessent as Treasury Secretary. Meanwhile, the European Central Bank (ECB) remained on track to loosen monetary policy telegraphing a cut of its key rates at its December meeting. Meanwhile, investors are expected to continue to prefer debt used to fund specific green or social projects with issuance of such use-of-proceeds bonds should remain "healthy" next year with Green bonds sales projected \$700 billion in 2025, up from a forecasted \$600 billion this year.**

In November, we increased our allocation to impact equities whilst also reducing our exposure to pure renewable energy by liquidated some names that are unlikely to prosper in the current environment (EDP Renovaveis, First Solar, Vestas Wind Systems). In parallel, we reduced our allocation to impact bonds and maintained a marginal cash allocation.

Focus stock of the month:



TSMC : Taiwan Semiconductor Manufacturing (TSM) is the biggest semiconductor manufacturer in the world. The company contributes primarily to SDG targets 7.3 (Energy efficiency) and 9.5 (Enhance scientific research) with its solutions enabling significant energy efficiency improvements in chips (and more broadly electronics) as well as the upgrading of technological capabilities. We also note contributions to SDG targets 12.2 (Sustainable Management and Use of Natural Resources) and 12.5 (Substantially reduce waste generation) and 12.8 (Promote Universal Understanding of Sustainable Lifestyles) due to its efforts to limit water consumption and waste generation, and its very comprehensive sustainability reporting.

Outlook:

Donald Trump returns as the 47th President of the United States in January 2025. Historically, US presidential elections have limited impact on financial asset prices. However, the divergence of the president-elect's policies prompted a rally of "Trump Trades" driving U.S. equities higher, strengthening the U.S. dollar, boosting Treasury yields, and sharply lifting U.S. financials on deregulation prospects.

As 2024 concludes, we assess our position within the economic and market cycles. In terms of market cycles, the bull market appears mature compared to historical precedents albeit by no means extreme. Above average valuations are concentrated in a handful of US Tech names. We consider the rest of US market more attractive and expect a broadening of the US equity rally. A renewed Trump presidency further supports our preference for U.S. equities. Heading into 2025, a more favourable transatlantic growth differential and investors' sentiment is key to keep favouring US equities.

The primary risk remains higher interest rates triggering an equity correction through valuation de-rating. However, we view this as unlikely to be severe, given signs of a global economic slowdown, particularly in China and Europe, and already elevated bond yields. A U.S. recession poses the most significant risk, with lower Treasury yields but equity markets correcting due to earnings downgrades.

We remain confident in multi-asset portfolios to provide diversification and better risk-adjusted returns than single-asset strategies, as they have consistently done over decades.

Donald Trump's potential return to the White House could further amplify the ongoing backlash against progressive social movements, which has already led to the passage of numerous anti-ESG laws in Republican states. This pessimism is apparently corroborated by the latest Morningstar's 2024 3Q report on global sustainable fund flows which point to the termination or merger of a growing number of sustainable funds. Nevertheless, observers in the sector insist it is not "game over", as sustainable funds managed to attract an estimated \$10.4bn of net new money in Q3.* More importantly, even as more traditional ESG funds appear to be falling out of favour, there is apparently a growing interest in Impact investments which target enterprises whose explicit purpose is to make a positive environmental and/or social impact alongside delivering a financial return. Indeed, The Global Impact Investing Network estimates that the value of investments whose purpose is to deliver a positive impact alongside a financial return has grown at, after compound annual growth of 21 per cent since 2019 to more than \$1.57tn globally.*** 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.

*"ESG investors retain a glimmer of hope even after Trump's victory" Financial Times 09/12/2024

**Bloomberg 12/12/2024

***"How to get more impact into investing " Financial Times 04/12/2024

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