ACT Multi Asset Optimal Impact Strategy

Message from this year's Impact Investing Summit: Ambition to Change the World.

- Equity markets delivered another month of positive performance whilst Impact bond markets were stable.
- Equity bucket performance was again boosted by climate related themes.
- The US announced $6 billion of funding for industrial decarbonization projects while the EU approved a scaled-back Sustainability Due Diligence law.

Laurent Ramsamy, Lead Portfolio Manager

What is happening?

Equity markets continued their upward trajectory this month, while bond markets remained relatively stable. In regulatory news, the EU passed a modified version of a Sustainability Due Diligence law, mandating companies to address their impacts on human rights and the environment. Additionally, EU lawmakers approved new regulations aiming for all packaging to be 100% recyclable by 2030. On the environmental front, the U.S. Department of Energy allocated $6 billion towards industrial decarbonization projects, reflecting a commitment to reducing carbon emissions. Furthermore, the Biden administration unveiled the National Zero-Emission Freight Corridor Strategy, signaling efforts to transition the trucking industry towards a more sustainable future.

Positioning and performance:

ACT MA OPTIMAL IMPACT			
	Dec-23	Feb-24	Mar-24
Net Equity	*44,2%*	*47,9%*	48,8%
Equities	*44,2%*	47,9%	48,8%
Equities derivatives	*0,0%*	0,0%	0,0%
Risk Mitigation Strategies	***0,0%***	**0,0%**	**0,0%**
Fixed Income	***50,5%***	**50,7%**	**50,5%**
Govies	*17,8%*	17,4%	17,3%
Bond Derivatives	*0,4%*	2,5%	-1,3%
High Yield Credit	*1,8%*	1,8%	1,6%
Investment Grade	*28,6%*	29,4%	29,5%
Emerging Debt	*2,4%*	2,1%	2,1%
Diversification	***0,0%***	**0,0%**	**0,0%**
Cash & Money Market	***5,2%***	**1,4%**	**0,7%**

Source: AXA IM as end of March 2024

The gains in the equity bucket aligned with those of international stock markets last month. Within the environmental sector, strong performances in "Energy Efficiency" (Nvidia, Taiwan Semiconductor) and positive contributions from the "Recycling & Recirculation" theme (Darling Ingredients, Brambles) were key drivers. Other themes, such as "Sustainable Materials" (Air Liquide and Linde), also made positive contributions, while "Low Carbon Transport" lagged due to Tesla's correction. People-oriented impact themes provided limited positive contributions, with gains for Dexcom and Becton Dickinson offset by declines in Clicks Group and Chinese health insurer AIA Group. Our "Social Inclusion" and "Empowerment" themes provided a moderate positive impact, led by EM Banks.

On the fixed income side, our Impact bond bucket remained relatively stable as investors adjusted to a less dramatic shift in monetary policy than previously expected. Despite a more modest increase in sustainable bond issuance this year, the appetite for Impact bonds is expected to remain strong, with forecasts pointing towards reaching a record $1 trillion mark. S&P anticipates Green bonds to continue dominating, albeit with a greater diversity in bond types and regional participation in 2024*.

In March, we slightly increased our equity exposure without making any major changes to existing holdings, while maintaining our allocation to Impact bonds.

Focus stock of the month:

Brambles: provides reusable pallets, plastic crates and containers that are shared and reused among its customers. The company’s circular business model contributes to SDG12 by reducing the pressure on natural capital, including climate and forests systems, and the waste production typical of conventional business models. Moreover, Brambles’ deployment of a fully closed-loop supply chain allows for significant potential reductions in their operational footprint. Brambles’ regenerative vision is to contribute to SDG 15 to halt deforestation. In this context, Brambles also stands out in its efforts to sustainably source its raw materials (timber) and in its contributions to reforestation projects.

Outlook

Markets have continued to perform strongly until the end of March whilst we remain constructive for more upside to come. Sentiment is positive while positioning rose but is not overly stretched, as many markets are flirting with all-time highs. Market breadth is expanding in the US, but not yet in Europe. This is logical given the latter's quality, cash flow generation and earnings power however more breadth expansion would be necessary to maintain confidence. Some of the recent optimism was provided by Central Banks, with the median rate outlook of 3 cuts for 2024, with initial cuts pushed out to July. Growth expectations in the US were raised for 2024 to 2.1% and future growth nudging higher to 2% supporting a 'soft landing' scenario. While Chairman Powell appears confident that progress was being made on bringing inflation down, this might take longer than initially expected. Regarding the ECB, we expect it to loosen policy sooner rather than later. Moving back to equity markets, a better growth/inflation mix and lower rates should continue to be a positive support for equities. The earnings outlook is also improving and IBES consensus expects between 7-9% earnings growth for the major developed markets in 2024 and 10-14% in 2025 which, combined with higher pay-out ratios and share buy backs, should support some further equity market gains.

Despite the ongoing backlash against ESG related policies in the United States, Impact Summits in both the Pacific and Europe provided the opportunity for a growing number of investors to gather and discuss the trends in this area. Many keynote speakers noted that with the growth in Impact investing over the past decade there is a greater focus today on the environment and climate risks without however abandoning its social impact roots. In parallel, there is a growing interest on the part of large-scale investors to not only invest within an ESG framework but to shift wealth aimed at supporting a more sustainable and equitable world.** Impact investing is thus increasingly becoming a key consideration for investors and firms looking to make a meaningful difference as the field continues to mature and evolve. Through their investment choices, investors have the power to drive positive change, making impact investing a compelling approach for those committed to making a difference.*** With regards to our Impact approach within AWF Act Multi Asset Optimal , we also continue to address the ongoing challenges of an urgent climate crisis by investing in companies and projects that provide the solutions towards decarbonisation through solutions including Renewables, Energy Efficiency or Green Buildings as well as Low Carbon Transport or those addressing 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.

* Standard & Poor's Financial Services 13/02/2024
** Impact Summit Europe 26-27 March 2024
***Atlanta Consulting Group 13/03/2024

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