

ACT Multi Asset Optimal Impact Strategy

Climate themes drive equity performance while Impact bonds faced rising yields headwind.

- Equity markets experienced a continued rally, contrasting with a slight correction in Impact bond markets.
- Performance within the equity bucket was particularly influenced by climate-related themes, contributing to the overall positive trend.
- EU continues to roll out strategies to reach carbon neutrality by 2050 while the US Treasury indicates that the benefits from the Inflation Reduction Act's reduction of Greenhouse Gas pollution are even greater than the official tally.

Laurent Ramsamy, Lead Portfolio Manager

What is happening?

Amidst ongoing shifts in financial markets, equities surged forward while bonds experienced a minor correction. In a significant stride towards climate action, the EU unveiled plans to slash net greenhouse gas emissions by 90% by 2040, aligning with its target of achieving climate neutrality by 2050. Concurrently, the EU aims to bolster industrial carbon capture, storage, and utilization capabilities. Meanwhile, the US Treasury emphasizes the multifaceted benefits of the Inflation Reduction Act, highlighting the underestimated value beyond the estimated \$5 trillion in economic gains until 2050. These benefits extend to improvements in domestic health and productivity resulting from reduced local air pollution.

Positioning and performance:

	ACT MA OPTIMAL IMPACT		
	Dec-22	Jan-24	Feb-24
Net Equity	32,7%	44,7%	47,9%
Equities	50,8%	44,7%	47,9%
Equities derivatives	-15,9%	0,0%	0,0%
Risk Mitigation Strategies	-2,2%	0,0%	0,0%
Fixed Income	37,0%	51,1%	50,7%
Govies	8,0%	17,4%	17,4%
Bond Derivatives	1,7%	1,0%	2,5%
High Yield Credit	2,5%	1,8%	1,8%
Investment Grade	26,5%	29,7%	29,4%
Emerging Debt	0,0%	2,2%	2,1%
Diversification	0,0%	0,0%	0,0%
Cash & Money Market	30,3%	4,2%	1,4%

The equity bucket performance outpaced that of international stock markets last month. On the Planet side, the strongest performance came from our "Smart Energy" themes, boosted by the recurring strong performance within "Energy Efficiency" (Nvidia, Taiwan Semiconductor). Other themes also contributed positively, such as "Low Carbon Transport" (led by the rebound of automakers Toyota and Tesla) or "Sustainable Production" (Trimble, Air Liquide, and Linde), as well as our "Recycling & Waste Reduction" theme to a lesser extent. Our People-oriented impact themes also provided a limited positive contribution, led by our "Wellbeing & Safety" theme (Raia Drogasil, Carrier), with a very modest positive contribution from our "Inclusion" and "Healthcare Solutions" themes given the mixed performance within these themes.

On the Fixed Income side, our Impact bond bucket weighed on performance as the negative headwind of rising yields overwhelmed the improved carry. The appetite for Impact bonds continued apace in February, with Green bonds experiencing their busiest February on record since the inception of the Green bond market in 2027, with issuance increasing just over +26% yoy, while Social debt issuance was up almost +29%, and Sustainable bond issuance (financing both environment and social projects) grew more modestly at +6% from a year earlier*.

In February, we continued to diversify our equity positions within both People (Bristol-Myers Squibb, Erste Group Bank, Intuit, Microsoft, Paypal Holdings, Unicharm) and Planet (Waste Management, XNYS) oriented themes. As such, we increased our allocation to equities while maintaining our Impact bond exposure.

Focus stock of the month:

ThermoFisher SCIENTIFIC

: contributes to better health outcomes through its diagnostic and life sciences research equipment, as well as providing environmental analysis technologies that facilitate water, air, soil and contaminant monitoring, increasing safety and improving customers' environmental footprints. The company scores highly for materiality due to the importance of diagnostic equipment and life sciences research for making progress towards SDG 3 (Health & Wellbeing). Analyser and testing solutions allow industrial customers to operate more cleanly and safely and comply with regulation thus contributing to SDG 12 (Sustainable Consumption & Production).

Outlook

Over the past three months, the markets have navigated through considerable volatility in outlook, transitioning from a consensus supporting all asset classes to an emerging narrative of a potential scenario without a clear resolution. This latter possibility would imply a heightened necessity for neutrality in US monetary policy. Despite repeated US GDP growth surpassing potential, there still exists a faction advocating for a recession scenario. Short-end interest rates have fluctuated between pricing in three to near seven Fed rate cuts in the upcoming twelve months since October. Alongside the AI profitability and productivity narrative, risk assets, particularly equities, have demonstrated resilience against rising bond yields or even exhibited robust performance. Nonetheless, factors potentially driving a slowdown in the US, or even recession in Europe, have not vanished. Our Macroeconomic Research team anticipates forthcoming weakness, likely evident in the labor market and wages, which could prompt the Fed to pursue policy normalization this year. While Wall Street appears robust, Main Street exhibits signs of fragility, reflected in strongly divergent financial condition indices between the two. Concerns persist about the impact of commercial real estate damage on small and mid-size bank balance sheets, hindering their credit extension capabilities. Should recent inflation and job reports prove temporary, and the pace of disinflation persist, attention may shift towards a series of cuts to reinforce the US outlook, potentially prompting rate cuts from the ECB as well. Both actions could provide support to financial markets.

There is little news on the Impact Investing front, although the Carbon Collective recently summarized Impact Investing as targeting investments that make a measurable difference globally while providing economic benefits to investors. Impact funds, including AWF ACT Multi Asset Optimal Impact, aim to tackle pressing global challenges like climate change, poverty, and inequality by directing capital towards projects and enterprises with tangible societal and environmental benefits. This movement has gained momentum as investors recognize the importance of considering environmental, social, and governance (ESG) factors in investment decisions. As assets under management in Impact funds increase, tangible social and environmental benefits emerge, including support for renewable energy, healthcare access, education, and gender equality. With evolving investor preferences, particularly among younger generations aligning investments with values, the demand for impact funds is expected to grow. This suggests a promising future for impact investing**, including AWF Act Multi Asset Optimal, enabling continued efforts to finance companies and projects addressing urgent climate challenges through decarbonization solutions like renewables, energy efficiency, green buildings, and low-carbon transport, as well as promoting equity and prosperity through healthcare solutions, financial and technological inclusion, and access to essential services such as education.

*Bloomberg 04/03/2024

** Carbon Collective 11/03/2024

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