l'oeil expert

# MARKET OUTLOOK DISCRETIONARY MANAGEMENT

SRI FUNDS MANDATE

AUGUST 2023

BANQUE DE LUXEMBOURG

# 1 MACROECONOMIC ENVIRONMENT

At the beginning of August, the rating agency Fitch downgraded the US debt rating by one notch, from AAA to AA+, the second-best rating. As one of the reasons for its decision, Fitch cited the deterioration in public finances, which has led to a high and growing debt burden. Despite the downgrade, investing in US debt is still one of the safest investments in the world. US bonds should also continue to play their role as a safe haven in a more difficult market environment.

China's central bank cut its one-year lending rate for the second time this year. After an initial 15 basis point reduction in June, the latest cut of 10 basis points takes the rate to 2.50%. Following a strong post-covid rebound, Chinese growth has been showing signs of faltering for some time, particularly in its property sector, where several developers are facing serious liquidity problems. Unlike its peers in the developed world, China is not experiencing strong inflationary pressures so it can afford to ease its monetary policy in an attempt to revive activity.

Interest rates moved in opposite directions on either side of the Atlantic. In Europe, the more pronounced slowdown in growth pushed long-term rates slightly lower, with the German 10-year yield ending the month at 2.47% (down 2 basis points). In the United States, the 10-year yield rose by 15 basis points to end the month at 4.11%. This rise is mainly due to Fitch's downgrading of US debt. Overall, the bond markets rose slightly over the month, with the exception of local-currency emerging market debt which suffered from negative currency effects.

In equities, the MSCI World AC in euros fell 1.3% in August, affected by the poor performance in emerging markets (-4.7%) that was largely due to fears over the Chinese property market. The second worst regional performance came from the eurozone (-3.1%), which is more dependent than the US (-0.2%) and Japan (-0.9%) on the health of the Chinese economy. In terms of sectors, energy (2.8%) was buoyed by the continuing rebound in oil prices. Healthcare (+0.2%) benefited from its more defensive bias in a more volatile market. All the other sectors posted negative performance over the month.

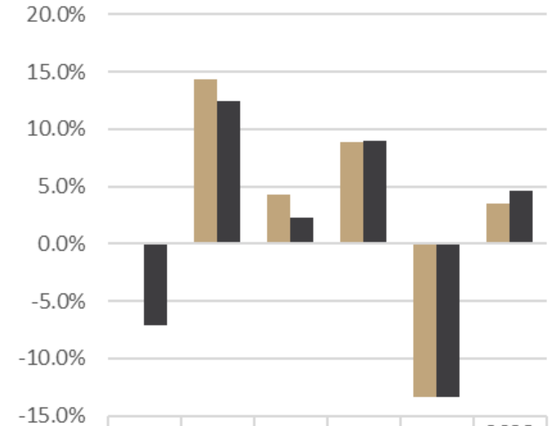
# 2 PERFORMANCE OF THE MANAGEMENT SOLUTION AT 31/08/2023

The portfolio management solution generated negative performance over the month of -1.21%.

This compares with a decline of 0.84% for the benchmark index, **Morningstar EUR Moderate Allocation**.

However, the portfolio is in positive territory since the beginning of the year, posting a gain of 3.54%.

## Performance: balanced investment strategy




| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 YTD |
|---|---|---|---|---|---|---|
| SRI Funds | | 14.3% | 4.3% | 8.9% | -13.4% | 3.5% |
| Benchmark index | -7.1% | 12.4% | 2.3% | 9.0% | -13.4% | 4.6% |

Our balanced portfolio fell 1.21% over the month, taking its year-to-date return to 3.54%.

The equity portfolio had a difficult month, affected by the poorer performance of its emerging market component, particularly the Chinese market. The Chinese authorities have failed to reassure investors who prefer to avoid a country that is paying the price for the after-effects of a costly property bubble, a very high level of private sector debt (225% of GDP) and a fearful consumer who prefers to save rather than consume. The support measures that have been announced are still timid and suggest a desire not to rely too heavily again on debt as the engine of recovery. The authorities are gradually moving away from the less productive sectors of the past, such as real estate, to prioritise the much more buoyant sectors of the future linked to decarbonisation of the economy. The **iShares MSCI EM SRI** index fund and the **CM AM Global Climate Change** fund fell by 6.6% and 5.9% respectively. In contrast, the **UBS (Lux) Solutions MSCI Japan Socially Responsible** tracker and the **Robeco Capital Growth SAM Sustainable Water Equities** thematic fund held up better, with respective performances of -1.9% and -0.8%. The Robeco fund benefited from its secular focus on water and more defensive positioning.

For its part, the bond portfolio made a positive contribution to performance, notably through its exposure to the US dollar, which benefited from a wider interest rate differential to appreciate against the euro over the month. However, our positions in emerging market debt via the **Candriam Sustainable Bond Emerging Markets** fund weighed on performance.

| | **SRI funds** | **Benchmark index[1]** |
|---|---|---|
| **Cash** | -0.78% | |
| **Equities** | 3.33% | |
| *EU* | *0.72%* | |
| *US* | *0.99%* | |
| *Japan* | *0.27%* | |
| *Emerging markets* | *0.10%* | |
| *Themed funds* | *1.25%* | |
| **Bonds** | 0.99% | |
| *Developed countries* | *0.90%* | |
| *Emerging markets* | *0.09%* | |
| | 3.54% | 4.62% |

(1) Benchmark index: Morningstar EUR Moderate Allocation

# 3 ASSET ALLOCATION AT 31/08/2023

**Transactions since the last update in a balanced portfolio:**

There were no transactions in the portfolio in August.

## Assets by class

| | % |
|---|---|
| **Equities** | **48.2%** |
| Global equities | **0.5%** |
| European equities | 12.1% |
| North American equities | 18.8% |
| Japanese equities | 6.5% |
| South Pacific equities | 0.2% |
| Emerging market equities | 10.1% |
| Developed country equities | 0.1% |
| **Developed country bonds** | **41.6%** |
| **Emerging market bonds** | **3.9%** |
| **Bonds via funds** | **0.5%** |
| **Cash** | **5.7%** |

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