Marketing communication

# PANORAMA

A SEMI-ANNUAL ANALYSIS BY OFI INVEST GROUP EXPERTS

#2 | June 2025

## Special edition on
## listed and non-listed assets

Ofi invest Asset Management
Ofi invest Real Estate
SYNCICAP ASSET MANAGEMENT
Zencap Asset Management
SWEN CAPITAL PARTNERS

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PANORAMA

*The analyses presented in this document are based on the assumptions and expectations of Ofi Invest. These analyses were made as of the time of this writing. It is possible that some or all of them may not be validated by actual market performances. No guarantee is offered that they will prove to be profitable. They are subject to change. A glossary listing the definitions of all the main financial terms can be found on the last page of this document.*

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Éric
**BERTRAND**
Deputy CEO,
CIO
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"Six months after launching Panorama, we are pleased to present this second edition of Ofi Invest's magazine at a turning point in 2025.

This new edition provides you with transversal insight into the major asset allocation issues, with the support of Ofi Invest Asset Management for liquid listed assets, alongside Syncicap Asset Management on emerging markets, Swen Capital Partners and Zencap Asset Management on private equity, infrastructure and private debt, and Ofi Invest Real Estate on real estate.

Amidst the ongoing disruption in traditional bearings, diversification and in-depth understanding of performance drivers of listed and unlisted assets are needed more than ever.

At Ofi Invest, we believe that asset allocation does not consist merely in reacting to events, however unpredictable they may be. Rather, it is part of a long-term vision based on diversification, resilience and… the ability to keep a cool head. Between 2 April, when Donald Trump made his tariff announcement (the now infamous "Liberation Day") and 31 May, it was urgent… not to get carried away. The markets dropped precipitously before rebounding to their highs, showing how costly it can be to rush into things.

In a world where news – good news, bad news, fake news, etc. – circulates at high speed, we feel it is crucial to step back, analyse underlying trends, and build robust allocations designed to last. This requires precise analysis of economic, political and financial dynamics, as well as the ability to have various capabilities working together.

This is where Ofi Invest's strength lies – in bringing together, within the same group, specialists recognised for their skills in all asset classes, both listed and unlisted. This is what allows us to offer consistent allocation strategies that are diversified and suited to the challenges facing each investor.

In this edition, our experts share their insights and convictions, with the clear objective of guiding you through a world that is challenging but that also offers opportunities, while staying the course on your long-term objectives.

Enjoy your reading!"

# Protectionism, budget, US Federal Reserve... better balance needed

Ombretta
**SIGNORI**
Head of Macroeconomic Research and Strategy
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Tariffs have driven steep volatility in foreign trade and in inventories, one reason being that companies brought forward their imports earlier this year. However, the impact of US trade policy on domestic demand can only be fully measured in the medium term. Uncertainty regarding household and business confidence is likely to slow consumption and business investment, but other fundamental variables in US consumer behaviour, such as purchasing power, jobs and wealth, are still faring well. In short, growth is likely to dip under its potential, but without collapsing.

Meanwhile, President Trump should be in a position this summer to meet one of his campaign promises, i.e., the prolongation and extension of his 2017 tax cuts. Revenue from tariffs will be needed to finance tax cuts, and that's why we expect them to last. Even if tariff receipts are not enough for tax consolidation, they could help keep the US's fiscal standing from spiralling out of control any time soon.

In the short term, protectionism is still the main inflationary risk, and the US Federal Reserve cannot ignore it. So, barring a sudden turn for the worse in the job market, the Fed is likely to wait and see before lowering its rates further.

## THE EURO ZONE CAUGHT BETWEEN PROTECTIONISM AND STIMULUS

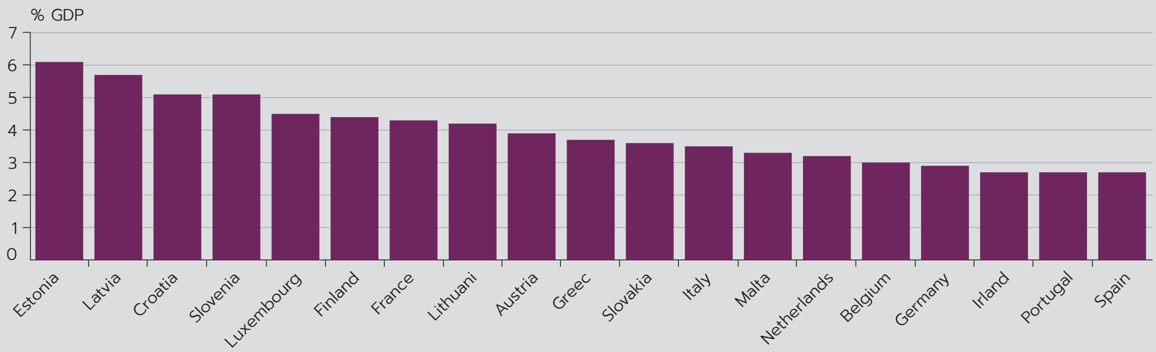
Savings intentions appear to have peaked in the euro zone. Purchasing power continues to rise, and unemployment is at an all-time low (6.2%). Against this backdrop, consumption is likely to continue rising slightly, but the recovery in business investment will probably be delayed by uncertainties over protectionism.

If reciprocal tariffs are much higher than 10%, there will be a real risk of prolonged stagnation or even a contraction in the economy in countries that export heavily to the US, such as Germany and Italy. However, things aren't so clear-cut. Some products exported to the US are not substitutable; other companies could decide to reshore; and Europe could recover some lustre in investors' eyes, such as a more stable business environment.

While protectionism remains a risk for the short term, in the medium term, the change in Germany's fiscal paradigm should begin to have a positive impact on growth as early as next year, as should the gradual deployment of heavier military spending at the European level.

Now that disinflation is well underway and key rates are in neutral territory at 2%, further rate cuts will depend mainly on the outcome of ongoing trade talks with the US, as well as how fast the new German government implements its stimulus strategy.

### PUBLIC INVESTMENT IN EUROPE




*Sources: Macrobond, Ofi Invest AM. Data as of 11 June 2025.*

Germany has one of Europe's lowest levels of public investment in GDP terms. But it has now launched a 10-year, €500 billion public infrastructure plan, or €50 billion annually, a fiscal stimulus equivalent to 1 percentage point of GDP. Economic literature tells us that public investment multipliers are high, ranging between 1 and 1.5. Based on a conservative multiplier of about one unit, the GDP impact would be at least 1 percentage point. Hence, assuming a realistic three-year ramping-up period, this would boost Germany's GDP growth by 0.3 to 0.4 percentage points each year from 2026 to 2028. At the scale of the euro zone, this would work out to additional growth of 0.1 to 0.15 points annually over the same period. In addition, increased military spending in Europe would boost European GDP by 0.15 percentage point each year in 2026, 2027 and 2028, assuming a gradual deployment and significant use of imports.

# Investors are proving to be resilient

Éric
**BERTRAND**
Deputy CEO,
CIO
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It they had told us a few years ago that, even with war raging in Europe and even after the US had just bombed Iran's nuclear sites, that even then, the markets would simply have shrugged it all off, we probably wouldn't have believed it!

Needless to say, investors have learned some lessons from the past. Whenever they have tried to price in geopolitical risk into their allocation, they have regretted it, with the notable exception of the oil shock of 1973, which led to a crash on markets after the Yom Kippur War (oil prices quadrupled, leading to galloping inflation). After a few days of news-driven volatility, the markets have always rallied. In this case, the Middle East "war" will therefore have had no impact on the markets.

As for inflation, there again, despite stubborn risks in the US, the worst seems to be behind us, unless the tariff war resumes and gets even worse. Against this backdrop, **the main central banks (with the exception of the Bank of Japan) are likely to stick to their key rate easing policies, but each at its own pace.** The US Federal Reserve possesses enough leeway, in our view, to lower its key rates further once (or twice) this year but has no reason to come to the rescue of an economy that is nowhere near collapsing. In Europe, most of the rate-cut path has been taken, and the markets are now pricing in just one last cut of 0.25%.

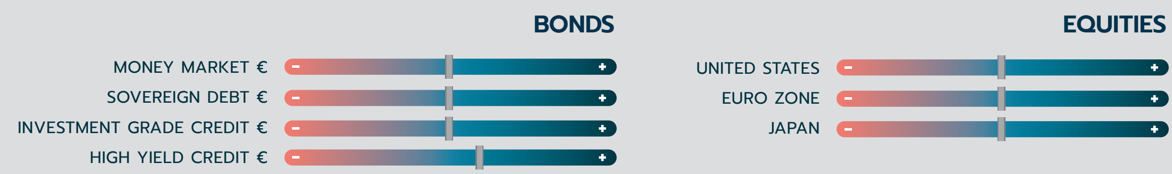
**Rates have also stabilised on the long section of the yield curve.** The 10-year German yield is now locked into a trading range around 2.5% and same-dated US bonds at about 4.35%. When removing short-term volatility from the equation, we believe that any foray above 2.5% on the Bund and above 4.5% on US Treasuries would be a good opportunity to take on exposure. The credit market, meanwhile, continues to fare well, and spreads have narrowed considerably. Even so, both investment grade and high yield look attractive for the medium term, thanks to their carry opportunities.

And, lastly, equity markets are rubbing up against their all-time highs, although France's index has lagged behind, dragged down by the strong correction in luxury stocks.

**Based strictly on valuation, we don't believe the US and European markets can be called cheap, but nor are they overvalued (European markets in particular).** The good surprise is that some companies have managed to pass on most of their higher costs to consumers, whereas we had expected this to squeeze their margins. The question now is whether this will hold true in the event that the US administration restarts its trade war. Against this backdrop, we have moved back to a neutral stance on equity markets as a whole.

**Experience shows that actual risks are never those that were anticipated. That makes it hard to identify the catalysts that could push equity and bond markets out of their current trading ranges.** Currency markets are worth keeping an eye on, with special attention for the strength of the dollar, which is the only currency that has not yet made up the ground lost after President Trump's early April "Liberation Day"[1].

## CURSORS




With sovereign bond yields being pulled in opposite directions, over-/underweighting of government bonds is being managed tactically. The 10-year US yield looks attractive above 4.50%/4.75% and the same-dated Bund, above 2.5%. The environment remains constructive for high yield in particular, with a preference for the most defensive, BB rated segment, due to volatility. Given the current challenging environment and with current equity valuations not offering much upside potential, we are opting for a neutral stance on the main equity markets, keeping in mind that Europe could recover some attractiveness to investors with its less volatile business framework.

*Past performances are not a reliable indicator of future performances.*
*[1] What Donald Trump has called 2 April 2025, the day on which new, drastic tariff measures were announced.*
*Our views on asset classes provide a broad and forward-looking framework and serves as a guide to discussions between Ofi Invest investment teams.*
*The investment time horizon of these views is short term and subject to change at any time. This framework therefore does not constitute a guide for constructing a long-term asset allocation. Past performances are not a reliable indicator of future performances.*

# INTEREST RATES

## Bond markets: fairly priced?

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Co-CIO,
Mutual Funds
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Bond markets have been particularly exposed to Donald Trump's pronouncements and to US tariff negotiations. Trump's statements have stoked uncertainty for investors and made life difficult for central banks. The European Central Bank (ECB) lowered its main key rate to 2% in June. Accordingly, ECB policy is no longer regarded as restrictive and the coming interest rate cuts, if there are any, will depend mainly on risks weighing on growth in the second half of the year.
The US Federal Reserve, meanwhile, remains on an especially cautious footing. It can afford to wait before lowering it rates, despite downside risks to growth and upside risks to inflation. Public finances would benefit from a rate cut, given the worsening in the deficit suggested by the budget bill approved by the House of Representatives. This has caused US yields to rise, particularly on the long section of the curve. The 30-year yield is trading at about 5%.

### BOND INVESTORS ARE WARY

Bond markets are wary of economic uncertainty and the difficulty of quantifying the inflationary shock that tariffs will produce. Some long-term debt investments are not drawing as much interest as in the past, and in some cases, this is causing sudden shifts in interest rates. Against this backdrop, investors are trying to dial down their exposure to the dollar and US assets.Even so, we expect these fears to lessen in the medium term and believe that current yields are at the right level. For example, the 10-year US yield looks attractive above 4.50%. So do European yields, with the Bund above 2.5%.
Meanwhile, the European credit market seems to have priced in that the tariff impact will be less severe than initially feared. Carry opportunities on corporate bonds, in our view, remain a solid advantage relative to other asset classes. In recent months, credit spreads have narrowed, with an extremely busy primary market illustrating investors' appetite for this asset class. Although yields are down and caution remains the byword, investment grade and high yield credit markets still look attractive in the medium term for their carry opportunities.

# EQUITIES

## Less upside potential

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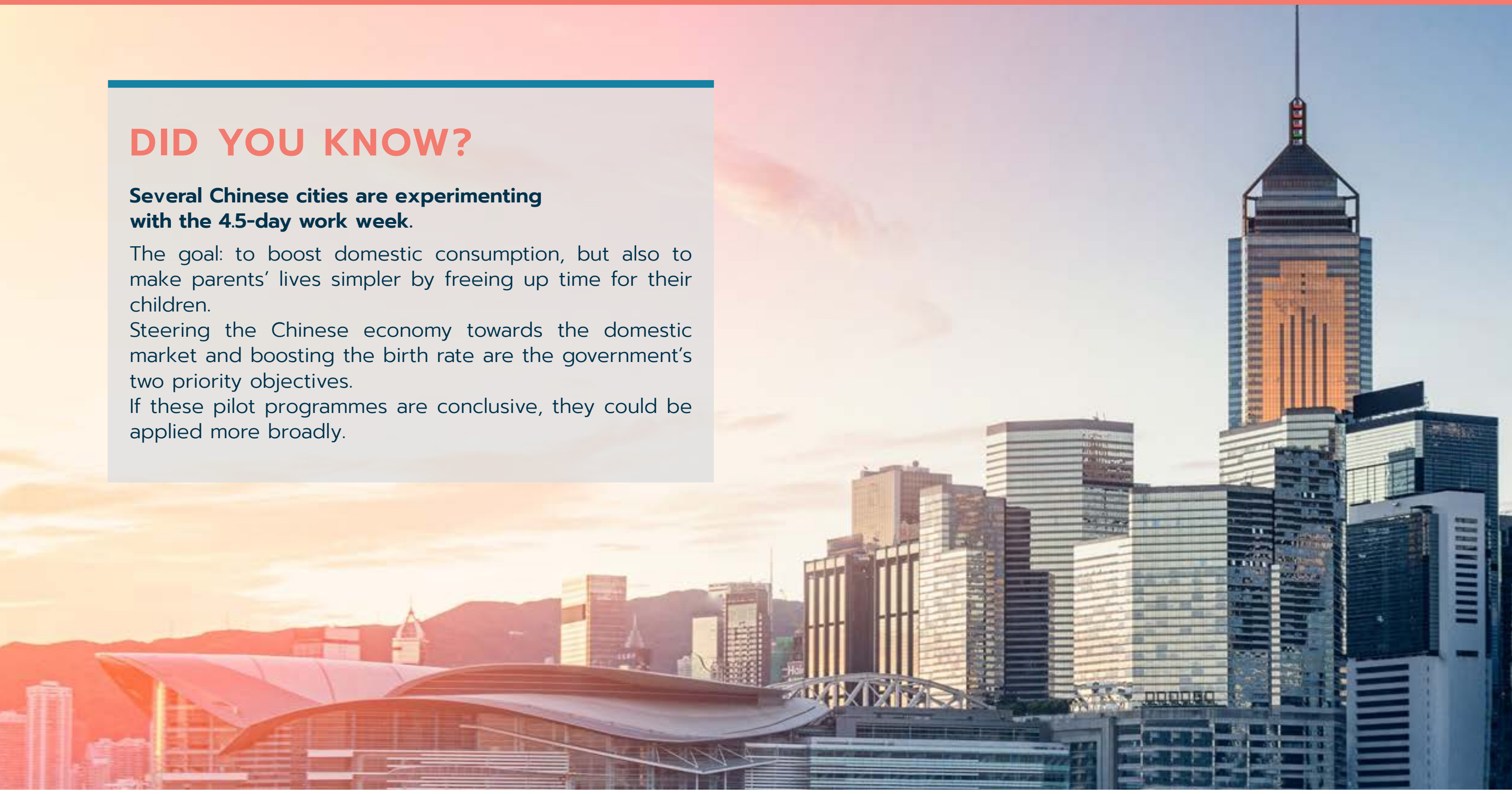
**TURJEMAN**
Co-CIO,
Mutual Funds
OFI INVEST AM

After being hit hard in early April by President Trump's statements on tariff hikes, the equity markets turned back up and are now nearing their all-time highs. From a fundamentals standpoint, remember that the three parameters for valuing equity markets are corporate earnings forecasts, long-term interest rates, and the risk premium.
On the first point, quarterly results were solid, and corporate guidance was less pessimistic than investors expected.
On the second point, the global economic slowdown has kept long bond yields from rising too much, despite ongoing imbalances in the main economies, which are causing governments to increase their debt issuance.
The third point may be the most surprising. The equity market risk premium is relatively low. So, have risks vanished? Certainly not, given a geopolitical context that remains tense in Europe and the Middle East and a US administration that continues to blow hot and cold on global trade.
On the geopolitical front, investors have grown used to the sound of boots over the past 35 years and do not price this risk into their allocations as long as it does not impact oil prices, as occurred in the 1970s.

### NO PANIC ON TARIFFS

Regarding the tariff war, the word now is that, despite provocative language, the US will be unable to conduct the policy that it announced on the infamous "Libération Day" in early April, either because the administration will realise the disastrous impact this would have on US companies, or because of the many legal obstacles that President Trump's executive orders are facing.
Generally speaking, we don't think that equity markets are overvalued, but nor do we believe that they offer much upside potential. This is why, after having overweighted US and then European equities, we are returning to a neutral stance, with a slight preference for Chinese equities.



## DID YOU KNOW?

**Several Chinese cities are experimenting with the 4.5-day work week.**

The goal: to boost domestic consumption, but also to make parents' lives simpler by freeing up time for their children.
Steering the Chinese economy towards the domestic market and boosting the birth rate are the government's two priority objectives.
If these pilot programmes are conclusive, they could be applied more broadly.

# "Beyond tariffs"!

Jean-Marie **MERCADAL**

CEO
SYNCICAP ASSET MANAGEMENT

**Equity markets - particularly in Asia - performed solidly on the whole in the first half, despite an international context marked by political and economic uncertainties. Investors appear to have shrugged off threats of higher tariffs on US imports and seem to be looking beyond them...**

After very steep volatility caused by "Liberation Day"[1], the overall picture of year-to-date performances is rather positive. The MSCI China All Shares is up by 10%, the EM Asia ex-China by more than 5%, and the MSCI Emerging Markets by more than 14% (as of 10 June 2025).
These performances contrast with the prevailing uncertainty. On the trade negotiations front, it is still hard to make heads or tails of what's going on. Meanwhile, the marked worsening in US public finances is beginning to weigh heavily on the bond markets, and long-term US rates are a key factor in the stability of global equity markets. And, lastly, on the geopolitical front, the war in Ukraine is continuing with no prospect of a resolution any time soon.

## SO WHY HAVE EQUITY MARKETS BEEN SO RESILIENT?

**We see three main reasons for the markets' resilience.**

**1 - Trump's America has "awakened" other countries.**
The Trump administration Trump has been a catalyst for many other countries to review their strategic priorities. This is especially so in Europe. In reaction to Donald Trump's firm stance on defence and trade issues, Europe has stepped up. For the first time in decades, Germany has eased its strict fiscal rules in order to give itself leeway to invest in defence and infrastructures.
In Asia, China has intensified its strategy of reducing its dependence on the US market, a strategy it began to implement during Trump's first term. China has strengthened its trade partnerships with Asia, Europe, and, increasingly, with the Middle East, a region with highly complementary trade based on oil in exchange for technology, green technology in particular.
Most of all, China is investing massively in its domestic capacities. The next five-year plan (2026–2031) will confirm this trend. China is expanding its investments in human capital and industrial infrastructures to achieve strategic autonomy in key areas. An ambitious "Metrology Plan" in disruptive innovation has just been launched. It provides for the construction of 20 world-standard factories to produce 100 critical components in sectors such as artificial intelligence, miniature robotics, semiconductors and quantum technologies. Meanwhile, China is seeking to attract top global talents, particularly those who

*[1] What Donald Trump has called 2 April 2025, the day on which new, drastic tariff measures were announced.*
*Syncicap AM is a portfolio management company owned by Ofi Invest (66%) and Degroof Petercam Asset Management (34%), and licensed on 4 October 2021 by the Hong Kong Securities and Futures Commission. Syncicap specialises in emerging markets and provides a foothold in Asia from Hong Kong.*

are turning away from the US, by investing massively in research and universities.

**2 - Robust underlying trends will boost potential growth**

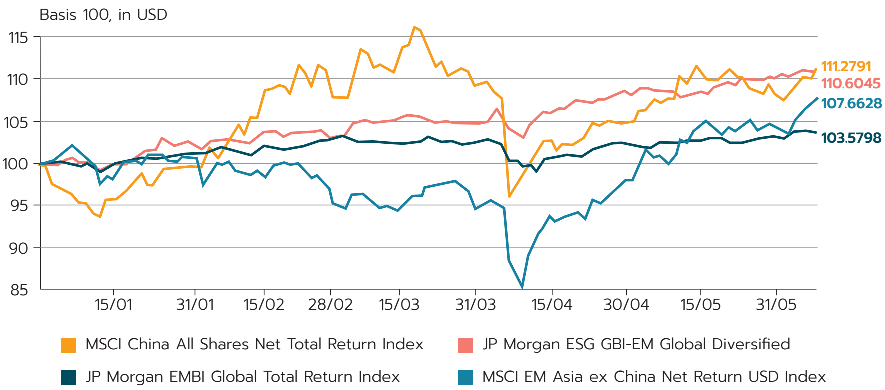
We are witnessing the emergence of technological momentum on an unheard-of scale. Massive investments and spectacular leaps are increasingly being made in key areas such as artificial intelligence, robotics, biotechnologies and renewable energies. These innovations, with their almost unlimited applications, are expected to radically transform our lifestyles, economies and modes of production. On top of their social impact, these technologies are expected to boost productivity considerably and raise the potential growth of the most advanced economies. They thereby constitute a powerful engine in support of financial markets, despite temporary uncertainties. Investors appear to have understood this.

**3 - New inflows could boost Chinese equity markets**

Equity valuations look relatively cheap, especially in China and Europe. This is drawing increasing attention from international investors, who had long overweighted US equities, a winning strategy since the 2008 crisis. Investment flows are now shifting towards Chinese equities, which had long been shunned for clearly identified reasons. Meanwhile, China possesses considerable domestic savings, estimated at 110% of its GDP. According to HSBC, 70% of these savings are invested in term banking accounts and account for most household financial, non-real estate-related wealth. With the ongoing decline in Chinese interest rates, a growing proportion of these savings could be redirected into domestic equity markets. HSBC forecast additional inflows of about $100 billion into the Hong Kong equity market. Keep in mind that Chinese household equity holdings are historically low, at 10% vs. 15% in 2021 and 20% in 2010.

Emerging market bonds in local currencies have risen by 9.7% in US dollar terms, despite the considerable rise of US bond yields. Emerging bonds in local currencies look well placed in the current macroeconomic environment, and the market is beginning to price that in. The index of emerging debts denominated in hard currencies, meanwhile, has risen by almost 3.5% in dollar terms.

**2025 PERFORMANCES OF THE MAIN INDICES**




*Source: Bloomberg as of 10 June 2025*

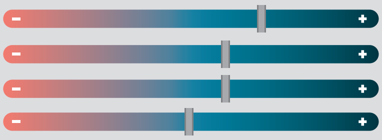
## CURSORS

CHINESE EQUITIES

ASIA EX-CHINA EQUITIES

EMERGING BONDS IN LOCAL CURRENCY

EMERGING BONDS IN HARD CURRENCY




Reallocation of international flows into Chinese equities does not appear to be over. Moreover, valuations are still rather attractive in both absolute terms and relative to US equities (with a P/E of about 12), with projected earnings growth of about 12% for MSCI China All Shares companies. On top of that, the government appears to have decided to promote equity investments in China at a time of very abundant household savings.

The outlook is very positive in the rest of Asia for the long term but could be very vulnerable in the short term in the event of a consolidation in US equities, to which it is more closely correlated.

Emerging bonds in local currencies continue to perform strongly, and there is still some upside in several currencies, particularly in Latin America. Moreover, yields on the asset class on the whole are still attractive, at more than 6%.

In contrast, spreads are currently rather narrow on hard-currency emerging market debt.

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# Real-estate investments are gradually recovering

Sébastien
**CHEMOUNY**
Director
OFI INVEST
REAL ESTATE

On the 5th of June 2025, the ECB lowered its key rates for the eighth time since summer 2024. In 12 months, they have gone from 4% to 2%, following 10 successive rate hikes between July 2022 and June 2024. While inflation appears to be under control, the focus has now turned to the strength of growth in the main European economies, which are facing the full brunt of combative and unpredictable US policies, with hard-to-quantify repercussions. These issues have shown up in recent shifts of the main real-estate indicators.
Investments, for example, have recovered, while rental activity has been dragged down by companies' wait-and-see attitudes.

## WEAK RENTAL MARKETS

European office leasing markets nonetheless expanded by 4% in the first quarter of 2025, year-on-year. Germany once again turned up, by 14%, its best start to a year since 2022. Even so, the main uncertainties shaking the markets have made a considerable dent in business and household confidence in recent months. Fears of softer growth and a subsequent rise in unemployment have dampened any plans for expansion and spending. New leases decreased in France, for example, in both offices and logistics, and vacancy rates have risen, while remaining low for warehouses and in the Paris Central Business District (CBD). Rents are no longer rising and have gradually stabilised for prime locations and new properties. They have fallen for existing and secondary locations.
Activity is still focused on CBDs, as a wide gap persists between city sectors. More recently, the near suburbs of Paris have featured a few rental property transactions of more than 15,000m², involving well-served buildings with large, quality layouts and notable cuts in rents. This is due more to the scarcity of large surface areas available in Paris than to a shift in demand towards its suburbs. Paris is still the first choice for new office space.

## A BIG REBOUND IN INVESTMENTS

The fourth quarter of 2024 featured a true acceleration in office property investment. After 18 months of holding back and of shrinking volumes, sellers threw in the towel, accepting lower prices from potential buyers, in particular for assets in peripheral areas. The amounts involved rose sharply late last year, by 27% in France between the third and fourth quarters and even more in early 2025, by 67% year-on-year. Office investments also recovered, with spikes of 180% in France and 60% in Germany in the first three months of the year. On average, office market values rose by 6% year-on-year in the first quarter of 2025 in the top 11 European metropolitan areas.
In France, investments recovered mainly in Paris CBD, with almost 50% of first-quarter 2025 acquisitions in the Ile-de-France (Greater Paris) region, with €1.18 billion, or a spectacular 275% increase of amounts invested compared to the first quarter of 2024, driven in particular by one very large transaction.
Unlike rental markets, investments have, paradoxically, benefited from economic and political uncertainties. For, the steep volatility on financial markets reinforces the attractiveness of real estate, with its tangibility and recurring rental income (4.8% annually on average since 1994, according to MSCI). These advantages are especially apparent in prime CBD office property.

## DID YOU KNOW?

**80% of "2050" buildings have already been built.**
This standard, based on modelling by the France's Agency for the Environment and Energy Efficiency (ADEME), is requiring an urgent transformation of current real-estate stock. The environmental transition is based on renovation (insulation, renewable energies, repurposing, etc.).
A sustainable future is not just about putting up new buildings. It's also about reinventing those that already exist.

## A NEW PARADIGM?

Rising long bond yields in recent months have had a big impact on financial markets. The ECB is expected to hold off for a while on its key rate cuts but could lower them further, depending on future tariff agreements. In the meantime, debt levels in Europe – whether suffered involuntarily in France or voluntarily exploited in Germany to support economic growth – are likely to prevent a significant decline in long-term yields.
The resulting automatic reduction of the risk premium inherent to real-estate investment, far from scaring off investors, reinforces their confidence in their strategy of acquiring prime properties to reposition or restructure them in order to benefit from the narrowing of yields and to justify rent increases. Moreover, the risk premium is far more comfortable when calculated on the basis of the OATi (France's inflation-linked government bond), which addresses the special features of real estate. For, the regular indexation of rents based on indices published by INSEE (the official French statistics agency) allows them to be increased for inflation observed during the period.
This ongoing narrowing of the real-estate risk premium is unlikely to undermine investor confidence, as long as it is limited to prime assets.

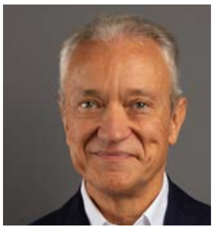
*Sources: Immostat, JLL, MSCI, PMA, Savills.*
*Data as of Q1 2025.*

## CURSORS


We have adjusted our investment and asset management strategy, as we expect rents for the best-located properties to level off or even sligthly decline. For acquisitions, we are now seeking out properties with long-term leases on which we can approach our tenant clients at a very early stage to extend those leases. Accordingly, we are giving priority to resilient assets generating stable income flows and suited to the structural sociological changes now underway and that are resulting in new uses.

OUR VIEWS OF ASSET CLASSES PROVIDE A BROAD AND FORWARD-LOOKING FRAMEWORK FOR DISCUSSION AND SERVE AS A GUIDE FOR INTERACTIONS BETWEEN OFI INVEST REAL ESTATE'S INVESTMENT TEAMS. THE INVESTMENT HORIZON OF THESE VIEWS IS SHORT TERM AND SUBJECT TO CHANGE AT ANY TIME. ACCORDINGLY, THIS FRAMEWORK DOES NOT CONSTITUTE AN INDICATION FOR BUILDING UP A LONG-TERM ASSET ALLOCATION. PAST PERFORMANCES ARE NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCES.

# Private debt: an essential avenue to European growth and competitiveness



Richard
**JACQUET**
Chairman
ZENCAP ASSET MANAGEMENT

Against an agitated geopolitical backdrop and a shift of paradigm in major global equilibria, private debt offers an opportunity to finance French and other European companies in a quest for more robust sovereignty, firmer resilience, and enhanced competitiveness in Europe. Private debt lends itself especially well to the sectors of defence, digital technology, and industrial and energy sovereignty.

## SMID[1] PRIVATE DEBT: AN OPPORTUNITY TO SUPPORT SUSTAINABLE GROWTH AND EUROPEAN SOVEREIGNTY

The SMID strategy, which targets larger small caps or smaller, unlisted mid-caps, is especially well suited to these challenges. It targets companies that are smaller but also more local than large caps, whose geographical footprint is broader but whose impact on the local economic is accordingly more diluted.
Moreover, SMID investment helps investors stick to their ambitious sustainability strategies, which is now more challenging outside of Europe. For, unitranche[2] SMID financing gives us the necessary influence on these companies' sustainability policies, while currently offering returns of about 8%/9%.

This comes with better control of risks, thanks to the bilateral relationship between lender and borrower, as well as the possibility of investing in thematics that will make Europe more competitive in tomorrow's multi-polar world.

## INFRASTRUCTURE DEBT: A PREREQUISITE FOR SUSTAINABLE GROWTH

Infrastructure debt is also at the forefront of this way of thinking. For, no sustained growth is possible without solid infrastructures. With new investments in Europe, a few themes are now emerging as an essential

*[1] SMID: financing of between €10 billion and €50 million euros.*
*[2] Unitranche is senior secured debt offering the same guarantees as senior debt but is generally held by a sole lender (a debt fund).*

foundation of Europe's future competitiveness, such as digital technologies and energy. These two segments are prerequisites for European companies' growth.
Both energy sovereignty and the quality of Europe's digital networks are therefore major challenges.
In addition to major infrastructure projects, Europe's resilience will also depend on its ability to build granular networks that cover its entire geographical area.
Senior debt has long been present on this market but has focused mainly on large caps[3] and has therefore not addressed the full range of financing needs of these transitions.
Junior small cap infrastructure debt also helps meet this objective by filling the gap in local financing. Moreover, it offers yields of about 8%/10% for secured junior debt and at a low Solvency II cost. We regard it as an important pipeline and are confident that it has much to offer in terms of balancing returns with risk and making a contribution to European independence and sovereignty

## SECURITISATION: TOO OFTEN OVERLOOKED IN PROMOTING FREER CIRCULATION OF EUROPEAN SAVINGS AND FOR FINANCING TOMORROW'S TRANSITIONS AND CHALLENGES

Securitisation is one of the least-used vehicles in private credit. And yet, it has recently been much-discussed, including in the Draghi report on reforming and restarting sustainable growth. Securitisation is now 10 times more common in the US than in Europe, due to European regulations that are now being regarded as unjustifiably disadvantageous. Securitisation is one factor behind the efficiency of the US economy.
In contrast to other regions, securitisation has been scorned in Europe over the past 15 years, but is now worth rehabilitating, as it could help enhance Europe's competitiveness.
The first step is to gain some perspective on credit performances: while US subprime has suffered inacceptable losses, CLOs (i.e., securitisations of leveraged loans) were hit mainly by price volatility. We now see that default and loss rates (in real terms, observed historically) in this market segment have been very low for 25 years, even lower than on corporate bonds of equivalent rating. And, of course, lack of investor interest has driven yields higher than on conventional credit instruments.
It is worth pointing out that securitisation is more of a technique than an asset class. It can be used for various underlyings but we're not talking about turning lead into gold (or gold into lead, for that matter). Rather, one must simply carefully choose the underlying loans and use securitisation wisely to finance the European Union's many needs in the current geopolitical and economic environment. Not to mention the fact that CLOs are now the main source of financing for leveraged loans and, hence private equity funds.

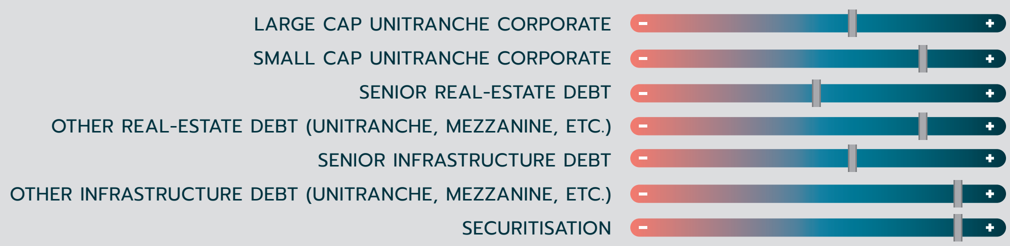
In conclusion, private debt is a multifaceted object. Its main manifestation is in large cap direct lending[4], but there are many other strategies offering attractive risk/return profiles, from diversification to opportunities for contributing to enhancing European sovereignty and competitiveness beyond the more traditional private debt segments.

## DID YOU KNOW?

**Securitisation is a technique** and not just a product, as was highlighted recently in the Draghi report. Moreover, various regulators believe that it has been unjustifiably penalised. While securitisation in the US suffered massive losses from the subprime crisis of 2008, CLOs[5] have experienced almost no losses over the past 25 years and even feature a better default track-record than corporate bonds.

*[5] A collateralized loan obligation (CLO) on the syndication market is a securitisation vehicle that encompasses a portfolio of leveraged syndicated loans.*

## CURSORS




Despite the recent pull back in interest rates, private debt currently offers yields of about 8%/9%, as credit spreads narrowed only slightly after widening in in recent years, particularly in the least busy segments. Mezzanine[6] or unitranche exposure helps align interests with those of borrowers and sponsors, procures returns that, in our view, properly remunerate risk, and provides a diversified sourcing of transactions. Securitisation of junior real-estate debt remains one of the sectors most overlooked by investors and could therefore offer worthwhile entry points and IRRs.

*[6] Mezzanine debt is a subordinated financing vehicle that combines elements of both equity and debt and that ranks below senior debt but ahead of shareholders in the event of default.*

*[3] In private debt, the large cap segment is generally considered to be financings granted to companies having EBITDA greater than €75-100 million.*
*[4] Direct loans to large companies.*

# Private markets are navigating between cautiousness and eagerness

Jean-Philippe **RICHAUD**
CIO
SWEN CAPITAL PARTNERS

Inflation and interest rates returned to acceptable levels in 2024 in both Europe and the US, thereby providing more visibility on liquidity for 2025.

The stock of unlisted assets had expanded in recent years, driven by historic acquisition terms (including high prices and inexpensive financing) that are quite different from the current configuration. A weaker market in 2023 caused a steep drop in divestment flows, thereby reducing investors' ability to reallocate these sums to successor funds.

A recovery had begun in 2024, and the year ended at satisfactory levels in France with €39 billion raised in private equity and infrastructure, a total of €37 billion invested in 2,881 companies/assets, and, €13 billion in divestments at historic costs[(1)]. But talk of higher US tariffs has dampened deal ambitions for 2025. About 30% of the stock of assets should have exited and returned the capital necessary for the cycle of selling unlisted assets. This has shown up mainly in longer fundraising phases, an almost impossible emergence of new teams, and a constrained choice of institutional investors' allocations.

Another sign of renewed caution is the Argos index of mid-market transaction prices[(2)], which in mid-March showed how much mergers and acquisitions (M&A) had dried up so far this year.

And yet, the structural conditions for a return of liquidity are there: 1/ In France, €122 billion was raised in private equity between 2020 and 2024, ranking it second in Europe, behind the UK (333 billion) and far

*(1) Source: FranceInvest*
*(2) The mid-market refers to mid-sized companies, generally characterised by: 1/ Revenues of between €50 million and €500 million (these thresholds vary from country to country and from fund to fund), and 2/ A valuation of between €50 million and €1 billion.*

ahead of Germany (33 billion); 2/ 115 billion was invested during this period, also behind the UK (156 billion) and ahead of Germany (78 billion); and 3/ Secondary market participants carried out $171 billion in transactions in 2024 and are forecasting 190 billion in 2025.
To say the least, managers are ready to hit the ground running, and opportunities are indeed there. However, uncertainty over the economic and geopolitical framework is still making it impossible to stabilise their acquisition assumptions.

## INFRASTRUCTURE: LIQUIDITY, THE ONLY DOWNSIDE

Market volatility so far this year has benefited asset classes such as infrastructure, which has been made a safe haven by its resilience (secondary market discounts are lower on average and in terms of standard deviations than in other unlisted segments), cashflow profiles and long-term trends.
Despite clear interest for this asset class, in support of sector dynamics (digital technologies, renewable energies and transport), the lack of liquidity is the elephant in the room that is disrupting fundraising and slowing the pace of M&A. Amounts raised and invested in 2024 are still at the level of 2023 and below that of earlier years (75 funds raised $75 billion worldwide, after peaking in 2021 at about 200 funds and $200 billion[3]). Things are expected to turn up in 2025, albeit modestly.

## PRIVATE EQUITY: HOT AND COLD

2024 was a good illustration of the European market's strengths. That's where the largest buyout fund was raised (€26 billion by CVC) and the largest secondary fund (€29 billion by Ardian).
In early 2025, the business climate steered flows out of private equity and into other asset classes. The mid-market is looking up and now accounts for more than 40% of total funds raised in the first quarter. Keep in mind that this pace has been driven by "continuation funds", i.e., deals in which the managers recycle assets rather than generating new deals. These are worthwhile but not enough to truly restart the market. Financialisation of the market has increased. Liquidity solutions, such as GP-led ones[4] (49% of deal volume in 2024) have spread throughout all market segments, in support of innovative financing (such as NAV financing).
Article 9 funds are faring well in this environment, in particular in impact investment, which continues to draw investors to key sectors such as healthcare, the energy transition or decarbonation.

## MEZZANINE DEBT: A NICHE MARKET THAT REMAINS ATTRACTIVE

Private debt is being driven by the senior/unitranche debt segment[5] with positive inflows in investor allocations in 2025. The entire asset class is benefiting from the increased financialisation seen in particular in funds specialising in NAV financing or asset-backed financing.
Mezzanine debt is structurally a modest-sized market (with about €650 million in investments annually in France). It is suited to the current transactional environment, thanks to its flexibility between equity and debt, and its solution to dilution.
Mezzanine debt has a clear edge in terms of liquidity and returns: with its higher ranking, it offers a sustained pace of liquidity, which is sometimes hard to come by in an equity fund.

## DID YOU KNOW?

**NAV Financing** is a category of private debt deal through which a manager of private assets structures, at the fund level, a financing based on the value of its assets, thus offering additional resources for portfolio development (M&A with a view to optimising exit value in 80% of cases) or generating liquidity without divesting assets (20% of cases).

## CURSORS


The outlook for private equity looks bright, with a performance track-record and controlled volatility that are favourable to the asset class. The rebound in allocations depends on confidence and, incidentally, on liquidity. Private equity and venture and growth capital continue to suffer from a lack of liquidity, which favours the most-established managers, who enjoy a certain amount of pricing power. Mezzanine debt is a flexible and lightly dilutive instrument that benefits from transactional complexity. Infrastructure, meanwhile, benefits from long-term trends, in particular in the core+ and value-add segments[7] in supporting climate and biodiversity transitions.

[6] *A buyout is a total or partial acquisition of a company, often with the use of debt leverage financing.*
[7] *The value-add segment consists of riskier assets than the core plus segment but in exchange offers better returns. In many cases, they offer growth potential through acquisitions or operational enhancements.*

[3] *Source: InvestEurope*
[4] *In private equity, a general partner-led (or GP-led) deal is a secondary transaction in which the fund manager (the GP) takes the initiative of restructuring one or more assets of an existing fund.*
[5] *Unitranche is senior secured debt offering the same guarantees as senior debt but is generally held by a sole lender (a debt fund).*

# Climate ambitions: from words to deeds

Luisa
**FLOREZ**
Head of Sustainable Finance Research
OFI INVEST AM

We are seeing a retreat of climate ambitions, particularly in the United States, where the Trump administration has pulled out of the Paris Agreement, has called for the end of tax breaks for green technologies, and has attacked climate scientists and experts. Some US banks and companies are following suit in dialling back their climate commitments or pulling out of some pro-climate and 2050-zero-net coalitions. In Europe, the issues of competitiveness and security have overshadowed the low-carbon-trajectory laid out a decade ago. This has resulted in a simplification or even an unravelling of Europe's Green Deal, as well as the desire to lighten what companies view as a regulatory burden, beginning with the CSRD[1] and the CSDDD[2].

Alongside these announcements, **extreme climate events are plain to see and are increasingly costly:** claims in 2024 amounted to an economic cost of 310 billion dollars and insurance costs of 135 billion dollars, or 38% more than the decade-long average, according to Swiss Re's figures[3].

These disasters also have serious human consequences, including population displacements, loss of cultural wealth, and disruption of means of subsistence. Forward-looking studies have sent out an alert. The Network for Greening the Financial System[4], for example, has shown that a three-year delay in the environmental transition could subject 1.3% from global GDP by 2030. **Climate inaction will inevitably affect competitiveness and growth**. It will directly threaten the business model of some sectors, which has always been based on cheap and abundant oil and cost-free availability of natural resources. And, lastly, it will expose companies to legal risk. Companies that have not made environmental commitments will be left open to legal proceedings, such as the mobilisation occurring under the name Affaire du siècle[5].

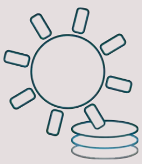
## A MISLEADING DECLINE IN SAY-ON-CLIMATE RESOLUTIONS[6]

The retreat by certain economic actors from their commitments to climate and biodiversity issues can be measured by the decrease in say-on-climate resolutions submitted at general meetings in 2025. That being said, at this writing, the general meeting season is still ongoing. It would therefore be premature to say that say-on-climate resolutions have decreased in number, even though that does indeed seem to be the case.

Several phenomena seen in early 2025 show that sustainability is a long-term trend embraced in companies' commitments and ambitions.

For example, companies have rallied around the CSRD in recent months. French companies realised the need, before their foreign peers, to engage with their shareholders on climate issues. Moreover, the inclusion of climate issues on the agendas of many companies shows that they are not ignoring them. More fundamentally, after a 2020-2024 period marked by the announcement of climate ambitions and strategies, we are now entering a phase of dialogue on the credibility of transition plans.

With this in mind, Ofi Invest AM has now decided to include environmental issues in the normal scheme of efficient governance. In other words, rather than using climate resolutions to deal with these issues, we now prefer routine resolutions, particularly on executive remuneration or director elections. In the event of disagreement on an extra-financial aspect, we will now tend more to oppose the election of directors responsible for such policies than to submit a say-on-climate resolution.



Climate-related insurance claims have exploded

Growing legal risk for companies

*(1) Corporate Sustainability Reporting Directive (CSRD): A European directive requiring large companies to disclose detailed information on their environmental, social and governance (ESG) impacts.*

*(2) Corporate Sustainability Due Diligence Directive (CSDDD): A European directive requiring large companies to identify, prevent and mitigate negative impacts on human rights and the environment throughout their value chains.*

*(3) Prospective 2025 mapping of insurance and reinsurance risks by France Assureurs*

*(4) The Network for Greening the Financial System (NGFS) is an international network of central banks and supervisory authorities launched in 2017 aiming to step up management of climate and environmental risks in the financial sector and to rally the financial sector around supporting the transition towards a sustainable economy.*

*(5) An initiative sponsored by three co-petitioning organisations: among other things, Notre Affaire à Tous, Greenpeace France and Oxfam France assume the full legal and financial responsibility of court actions made in the public interest.*

*(6) A say-on-climate resolution submitted for a vote by shareholders at a company's general meeting, aiming to gauge their opinion on the company's climate strategy and/or its implementation.*

## GLOSSARY

**Carry:** strategy that consists in holding bonds in a portfolio, possibly even till maturity, in order to tap into their yields.

**Credit spread:** difference between the yield differential of a private corporate bond with that of a sovereign bond of the same duration, considered to be the least risky (the benchmark government bond).

**Duration:** weighted average life of a bond or bond portfolio expressed in years.

**Inflation:** loss of purchasing power of money which results in a general and lasting increase in prices.

**Investment Grade / High Yield credit:** Investment Grade bonds refer to bonds issued by borrowers that have been rated highest by the rating agencies. Their ratings vary from AAA to BBB- under the rating systems applied by Standard & Poor's and Fitch. Speculative High Yield bonds have lower credit ratings (from BB+ to D, according to Standard & Poor's and Fitch) than Investment Grade bonds as their issuers are in poorer financial health based on research from the rating agencies. They are therefore regarded as riskier by the rating agencies and, accordingly, offer higher yields.

**PER :** Price to Earnings Ratio. A stock market analysis indicator: market capitalisation divided by net income.

**Risk premium:** reflects the additional return demanded by investors compared to a risk-free asset

**Spread:** difference between rates.

**Volatility:** corresponds to the calculation of the amplitudes of variations in the price of a financial asset. The higher the volatility, the riskier the investment will be considered.

## Important disclosure



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*(1) Source: Ofi Invest at 31/12/24 - Employees under temporary and permanent contracts only.*
*(2) Source: Financial statements of the entities concerned, as of 31 December 2023.*
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