Candriam Equities L Europe Innovation

Market Overview

Whilst 2024 was an outstanding year in terms of global stock market performance, there was no year-end rally in December. Global equity markets were down mainly because the FED indicated that going forward, the pace of rate cuts would slow down, as the economy remains strong and inflation is stable rather than coming off further. Equity markets, that were mainly driven by rate cuts, slowing inflation and resilient economic growth over the course of 2024, gave up a bit of their excellent 2024 performance. As the presidential inauguration in the US is coming closer, investors also start to take into account some uncertainty about tax cuts, tariffs, an potential immigration stop, reshoring, expansionary fiscal policy and deregulation. There is still no concrete evidence that President Trumps will be able to translate his campaign promises into effective actions.

In Europe, the absence of reliable measures of slack makes it difficult for policymakers to weigh the relative importance of weak demand and supply performance. The lack of effective metrics breeds caution, and places greater weight on slow-moving trends in wage and service price inflation. The shift in risk bias in the face of a recent troubling loss of growth momentum has thus remained incremental. In all, the gradualism expressed by European central banks this month does not dampen the market’s confidence that they will ultimately lower policy rates significantly more than the FOMC.

Portfolio Highlights

European equities closed the month slightly lower driven by rate-related developments. The European Central Bank implemented another rate cut in December but maintained a more hawkish tone than expected. France faced significant political upheaval after a successful no-confidence vote ousted the government of Michel Barnier, putting pressure on French assets. The fund slightly outperformed its benchmark in December.

Our key positive contributors were Hexagon (announcement of a highly regarded new CEO), Finecobank and bioMérieux.

On the other hand, our main performance detractors were Carl Zeiss Meditec (decent Q4 reported, but very cautious guidance for 2025), DSM, and Spirax.

During the month, we took some profit on good 2024 performers such as Inditex and EssilorLuxottica where valuation appeared more stretched. We increased Amadeus and Symrise.

Fund Outlook

The environment should be more favourable to our portfolio given the ongoing rate-cutting cycle from the ECB, which should enable Quality / Growth companies to benefit from better valuation metrics and lower financing conditions. We are confident that long-term rates will not increase in Europe (given low GDP growth and inflation), despite a likely different trajectory in the US following the Trump victory. In addition, the supply-chain normalization should support B2B suppliers that suffered from a long destocking phase.

Lastly, the stimulus plan in China will be positive for some companies in the portfolio (especially within Healthcare equipment), although measures still need to be detailed. We still think that cyclical sectors (Industrials, Consumer Discretionary and Financials) are expensive. However, some European cyclical names with high US exposure, especially within Industrials, will benefit from Donald Trump's upcoming tax cuts. On the other hand, other names (within Automobiles for instance) will be hit by higher US tariffs on European products.

The risk of higher US tariffs is limited because the vast majority of goods sold by European companies in the US are manufactured directly on American soil, and not subject to customs. The damage from higher tariffs would be significant for only a handful of sectors with European production, such as luxury goods and automobiles. For 2025, in line with our soft-landing scenario of the global economy, we expect Quality / Growth stocks (and particularly Innovative companies) to outperform.