Candriam Equities L Europe Innovation

Market Overview

The long-anticipated start of the Federal Reserve's rate cutting cycle (by 50bp) finally arrived this September, along with a less hawkish tone from Japanese policymakers and new stimulus in China. All this helped to soothe investor concerns and support a strong rally in stocks into the end of the month.
This said, there are certainly a number of factors that are hampering investor's enthusiasm. Weaker macro data in the US and certainly in Europe, are slightly raising the (still low) probability of recession. Military conflicts in the Middle East and in Ukraine are far from over and weigh on investor's confidence. At the same time, one should not underestimate the uncertainty due to presidential elections in the US and difficult government formation in several European countries.
Regarding inflation in Europe, services price gains remains sticky, but there are hints of improvement. Price expectations from the EU survey also point to the GDP deflator slowing further. With inflation cooling and activity relatively muted, other western central banks also deemed it appropriate to cut rates.

Portfolio Highlights

In September, European equities closed the month broadly unchanged. After an initial market decline, market was reassured by the start of the Fed rate cutting cycle and new stimulus in China.
The fund outperformed its benchmark. Our key positive contributors included Carl Zeiss Meditec and Hexagon (both names helped by better sentiment in China) as well as Kingspan.
The key performance detractors were Tomra, Genmab an Nestle.
During the month, we slightly decreased exposure to Novonesis. And finally, we slightly increased Croda.

Fund Outlook

The environment should be more favourable to our portfolio given the ongoing rate-cutting cycle from central banks, which will put an end to the increase in long-term rates. Indeed, Quality/Growth companies will benefit from better valuation metrics and lower financing conditions. In addition, the supply-chain normalization should support B2B suppliers that suffered from a long destocking phase.
Our actual defensive sector allocation may be revised in the coming weeks, ahead of the US elections. A Trump victory with a clear Congress majority would lead to increased long-term rates (negative for Real Estate, positive for Banks). It would be also negative for some European sectors exposed to tariffs (like Automobiles). A clear Harris victory (min. 50 senators) would negatively weigh on Aerospace & Defence and eventually on some Pharmaceuticals. Equity markets may suffer from her fiscal policy (higher corporate taxes).
Concerning China, the last measures announced are a clear positive for the sentiment ("Chinese Put") but the economic trend will stay depressed for a while.
For 2025, in line with our soft-landing scenario of the global economy, we expect Quality/Growth stocks (and particularly innovative companies) to outperform.