

Candriam Equities L Europe Innovation

Market Overview

In July, the global stock market reached another all-time high, driven by more benign inflation numbers and slightly weaker labour data. As such, investors felt more comfortable that the Fed would start cutting interest rates from September on. But global equities ended the month in turbulence affected by geopolitical turmoil, central banks shifting gears and disappointing earnings in major tech stocks.

In Europe, a disappointing Purchasing Managers' Index (PMI) print, which indicated a slight tempering of eurozone economic growth over the summer, coupled with uncertainties around the French election, likely contributed to the weakness.

Portfolio Highlights

The European equity markets closed the month higher. The fund outperformed the benchmark during the period. Our key detractors of performance were Hexagon, Siemens Healthineers, Stratec. On the other hand, our key positive contributors to performance were Tomra (results), Kerry, DSM-Firmenich. During the month, we slightly increased Nestle and L'Oréal.

Fund Outlook

While US core inflation has been on a welcome downward trend, recent spikes in energy prices and stubbornly high service sector inflation have raised some doubts on the Federal Reserve's plans for interest rate cuts. Therefore, a rate cut from the Fed seems less and less likely in the short term. Going forward, a rate cut is still possible by year-end, but it will depend on the macro data, and specifically on the inflation trend and the evolution of job markets.

In contrast, the ECB has already started its rate-cutting cycle, with a first cut announced on 6 June, given a lower inflation in the eurozone than in the US. Although the path remains uncertain, we expect two further rate cuts by the end of the year in the eurozone, which should be positive for European growth sectors and stocks.

The Growth style has outperformed the Value style YTD. We expect the momentum of growth stocks to continue with some volatility.

Overall, we keep our cautious stance on global Equity Markets, given the uncertainty regarding the impact of high funding costs on the US, European and global economies for 2024-25. GDP growth is expected to slow in 2025 in the US, while it should improve slightly in the eurozone, but remaining at a low level.

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