Candriam Equities L Europe Innovation

Market Overview

Equity markets opened the new year on a strong note. The inauguration of the new US President was probably the most impacting event in the first month of the year. Even if investors were not sure about the consequences of President Trump's "Make America Great Again" plans, it was widely accepted that the impact on US economic growth would be positive, at least in the short term.

In Europe, company results were very strong, economic growth seems a little bit more resilient than feared and the inflation trajectory is such that the ECB can continue to lower rates. In this environment, the European stock market significantly outperformed. Gains were supported by the Financials and Consumer Discretionary sectors owing to the solid global economic backdrop and tentative signs of improvement in the euro zone macro data.

The European Central Bank cut its policy rate by 25bp to 2.75% this month. It still saw this level as restrictive and the December staff forecasts were seen as "on track". The latter have rate cuts down to 2% factored in, suggesting that the ECB is on a path to delivering those. President Lagarde confirmed the lower range for the neutral rate of 1.75%-2.25% she gave recently, suggesting room to cut further before a debate about moving into accommodation has to occur.

Portfolio Highlights

European equities market started strongly 2025 with a positive performance in January. The month was marked by the emergence of DeepSeek, a new Chinese AI, raising questions about the US tech sector's ability to meet high expectations. In the long run, technological evolution might play a more decisive role than politics in shaping market leadership.

The fund has a good start of the year with outperformance during the month.

Our key positive contributors were Hexagon, Carl Zeiss Meditec and bioMérieux. On the other hand, our main performance detractors include Kingspan, DSM and Symrise.

During the month, we continued to trim the allocation towards EssilorLuxottica. We still like the LT fundamentals and multiples growth drivers (smart glasses, myopia management, Nuance Audio Glasses) but feel valuation is more stretched at these levels.

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 despite a likely different trajectory in the US following the Trump victory.

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.

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.