

Candriam Equities L Global

Demography

Market Overview

In July, the global stock market reached a new all-time high, albeit by a small margin, as investors shifted from the Magnificent 7 (excluding Apple) to higher beta and value stocks. In the US, economic activity remained subdued, as evidenced by cooling job markets. Public sector hiring provided some support but the pace of hiring for private companies continued to slow. Additionally, the CPI was more benign than expected, which increased optimism about a potential rate cut. The month was also notable for the assassination attempt on Donald Trump, which bolstered the sentiment for small cap and riskier stocks, referred as the “Trump basket”.

The US consumer is showing signs of weakness, as demonstrated by the ISM services and retail sales figures. Many companies have reported sales slightly below expectations, citing a value seeking consumer.

Sector-wise, IT and Communication services performed the worst as the market transitioned from year-to-date winners to laggards. Investors began to question the timing of AI on the revenue and earnings seeking tangible evidence that the spending would materialize in profits. Conversely, rate-sensitive sectors such as Utilities, Financials and Real Estate led the market, driven by lower rates and increased expectations that the Fed will start cutting rates in September.

The strategy underperformed the benchmark. Top performers were Stanley Black & Decker, UnitedHealth and Iqvia while the top detractors were Alphabet, ASML and Microsoft.

Portfolio Highlights & Strategy Review

We continue to maintain a barbell approach in our portfolio construction considering the weakening global economy and the geopolitical situation. We favour high-quality, long-duration and defensive companies over cyclicals. We sold our positions in the commodity sectors and reinvested the proceeds into Industrial companies.

Additionally, we exited our position in Costco. While the business is performing very well, the valuation became unattractive as the stock is trading at peak multiple.

Fund Outlook

Due to the prevailing macro environment, we keep a quality tilt with an OW in IT and Healthcare. Currently, the largest underweights are cyclical sectors such as Real Estate, Energy (excluded) and Materials. We do remain convinced technological innovation has strong secular trends (IoT, cloud transition, machine learning, artificial intelligence, automation). Healthcare remains a clear play on ageing population, where advances in medicine and medical technologies are fostering longevity and better quality of life.



Consumer Staples allow us to gain exposure to the rise of the emerging market consumer. The strategy is constantly monitored, and it is carefully balanced towards global companies with a strong competitive advantage, solid balance sheets and with a clear exposure to the demographic megatrends. Given the excellent long-term perspectives, we continue to recommend using every dip to increase or initiate positions in this diversified strategy.

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