Candriam Equities L Global Demography

Market Overview

In August, the global stock market closed the month with a modest gain, despite experiencing a significant correction the first week. This downturn was primarily driven by a sharp decline in the Japanese stock market, as the BoJ adopted a more hawkish stance. As a consequence, the carry trade unwind pushed the Japanese market to plunge roughly 20% in 2 days. However, the stock market recouped the full loss toward the end of the month, driven by expectations that the Fed might cut interest rates more quickly as inflation continues to ease and unemployed rises, partly due to increased labour force participation. Despite this optimism, the manufacturing PMI remains in contracting territory, suggesting ongoing weakness, while the services PMI saw a slight rebound. Overall, the current macro environment is signalling slowing growth and investors are still evaluating the potential impact of the significant rise in interest rates over the past 3 years. As a result, the market narrative is shifting quickly and we observe a return to the dynamic where good news is good for the market and bad news is negative, as investors react more directly to economic data.

Sector-wise, IT and Communication Services performed the worst as the market continue to transition from year-to-date winners to laggards. Investors were selling the AI bucket in August while earnings were good. 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 slightly the benchmark. Top performers were Palo Alto, Iberdrola and Progressive while the top detractors were Emerson Electric, MUFG and Micron.

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. Considering the sell-off in Japan, we reduced our underweight by investing in Hitachi and Hoya which posted strong earnings and long term trends are intact (electrification and optical glasses).

We slightly took profit on the IT sector and particularly in the semi complex toward the end of the month as the industry fully recovered the recent dip. We sold our position in Applied Materials and reinvested the proceed in AMD where we see more upside as the company should benefit from Intel's issues.

Fund Outlook

Due to the prevailing macro environment, we keep a quality tilt with an OW in IT and HC. 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 investment 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.