

# Candriam Sustainable Equity Circular Economy

## Market Overview

August started with a bang which sent global equity indices (MSCI AC World NR<sup>®</sup>) down 6.4% over the first two trading sessions. The exact dynamics at play was unclear, but weaker US economic data (weaker non-farm payrolls figures, re-igniting fears of a hard landing) and the first increase in interest by the Bank of Japan (BOJ) in years (quick unwind of the yen carry trade) led to a sharp rebound in volatility (VIX jumped to 65 from 16 over a short period). It turned out this was a buying opportunity for global equities due to the confluence of various factors which happened later that month:

- 1) The BOJ offered a quick U-turn on its monetary policy;
- 2) Developed markets central banks have signalled their fight against inflation was over which means that both the Fed and the ECB are expected to cut rates;
- 3) US employment data have been revised lower for the fiscal year ending March-2024 suggesting the job market was less tight than previously thought, placing the emphasis now more on growth rather than inflation.

From a geographical standpoint, Japan, despite, being down 20% at some point, ended up in the green. Europe did outperform the US by 10bp, returning 3.94% in USD. Emerging Markets lagged. Unsurprisingly, in the context of lower bond yields (US 10Y down at some point by 20bp during the month), defensive and rate sensitive sectors did better in August, with Real Estate, Healthcare and Consumer Staples outperforming. Conversely, Energy as oil price weakened in the month, and Consumer Discretionary were at the bottom of the pack.

## Portfolio Highlights

In August, the fund returned 2.99%\*, outperforming its benchmark by 45bp. The MSCI AC World NR<sup>®</sup> ended the period up by 2.54%\*\* . Year-to-date, the fund underperforms its benchmark by 629bp, despite a positive absolute performance of 9.68%\*.

Our allocation within the sectors Energy and Consumer Staples was the largest contributor to the excess portfolio return. Last month's best absolute performer was BEST BUY CO INC (Consumer Discretionary), which returned 16.0%. With a positive contribution of 30bp, TETRA TECH INC (Industrials) was the top contributor to relative performance. ECOLAB INC (Materials) as well as BEST BUY CO INC were also solid contributors, contributing with 29bp and 24bp respectively.

Stock selection in the Industrials and in Utilities sectors detracted the most. Last month's worst absolute performers were TREX COMPANY INC (Industrials) and CHART INDUSTRIES INC (Industrials), which returned -24.2% and -23.7% respectively. CHART INDUSTRIES INC was the main detractor from relative performance, detracting by -44bp.

In August, we increased the positions of two American corporations, DELL TECHNOLOGIES -C (Information Technology) and AGILENT TECHNOLOGIES INC (Health Care), from 0.8% to 1.3% and from 1.1% to 1.4% respectively.

## Fund Outlook

September is generally a tough month for global equity markets. It is also a busy month to meet with investee companies during conferences which will give us a good opportunity to reassess business outlooks and gauge management's confidence in executing on their targets. We believe that stock-picking will remain paramount into year-end, and thematic tailwinds could certainly help. In fact, we expect that regulation around plastic recycling will garner momentum into year-end (UN initiatives, as discussed earlier in our comments) which could prove supportive for a subset of our investment universe. In addition, lower interest rates into year-end could help longer duration stocks which equally are a non-negligible part of our net asset value.

\* net of fees in USD terms

\*\* net return in USD terms

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