Candriam Sustainable Equity Circular Economy

Market Overview

Global equity markets demonstrated surprising resilience in September, traditionally a tough month for stocks. The MSCI World Index rose by 1.79%, supported by gains of 2.02% in the S&P 500 and 2.68% in the Nasdaq. The Fed's unexpected 50-basis point rate cut boosted investor sentiment, leading to the S&P 500's best nine-month performance since 1997. Despite some broadening in the market earlier in Q3, with gains in value and cyclical stocks, September saw a return of leadership by the mega-cap technology companies. The tech-heavy Nasdaq continued to outperform, while defensive sectors like utilities and consumer staples also fared well due to the favourable interest rate environment. In Europe, equity markets were mixed: Eurostoxx 50 gained 0.86%, while the FTSE 100 fell by 1.67%, indicating regional divergences driven largely by varying exposure to global macroeconomic shifts and monetary policy differences.

Asia saw significant gains, largely driven by China's newly unveiled economic stimulus, which helped propel the CSI 300 up 20.97%. Greater China led the regional rally, benefiting sectors like consumer discretionary, property, and technology, which were lifted by renewed investor optimism. In the broader market, materials and industrials also saw notable strength across regions, particularly in response to easing measures in China that are expected to support commodity demand.

Portfolio Highlights

In September, the fund returned 1.05%*, underperforming its benchmark by 128bp. The MSCI AC World NR ended the period up by 2.32%**. Year-to-date, the fund underperforms its benchmark by 783bp, despite a positive absolute performance of 10.83%*.

Stock selection in the Health Care sector contributed the most to the excess portfolio return. Last month's best absolute performer was WEST FRASER TIMBER CO LTD (Materials), which returned 10.5%. With a positive impact of 14bp, the overweight of ASHTEAD GROUP PLC (Industrials) was the main contributor to the excess portfolio return. ZEBRA TECHNOLOGIES CORP-CL A (Information Technology) as well as BALL CORP (Materials) were also solid contributors (12bp and 11bp respectively).

Last month, the portfolio's performance mainly detracted because of our allocation in the sectors Communication Services and Consumer Discretionary. Last month's worst absolute performers were MONTROSE ENVIRONMENTAL GROUP (Industrials) and NESTE OYJ (Energy), which returned -20.1% and -16.9% respectively. With a negative impact of 26bp, WASTE CONNECTIONS INC (Industrials) was the main detractor from the excess portfolio return.

In September, we introduced NIKE INC -CL B (Consumer Discretionary) as well as BOLIDEN AB (Materials) to our portfolio (+0.8% and +0.8% respectively). We also increased the positions of DELL TECHNOLOGIES -C (Information Technology) as well as DANONE (Consumer Staples), from 1.3% to 1.8% and from 2.0% to 2.5% respectively. We sold VERALLIA (Materials) (-0.9%) and reduced our exposure to the two American corporations, WASTE CONNECTIONS INC and DARLING INGREDIENTS INC (Consumer Staples), from 4.0% to 3.0% and from 1.8% to 1.2% respectively.

Fund Outlook

As we approach the end of the year, equity markets are poised at a critical juncture, with multiple factors capable of influencing market direction. On the positive side, the continuation of the Federal Reserve's rate-cutting cycle could provide a supportive environment for equities, particularly those in environment focused sectors sensitive to borrowing costs. A soft-landing scenario in the US, coupled with easing inflation, could sustain consumer confidence and corporate profitability, which may favor growth-oriented sectors and cyclicals. Additionally, China's recent economic stimulus measures have shown initial promise, boosting regional equities and potentially impacting global risk sentiment if sustained improvements materialize.

However, several uncertainties could weigh on market performance. Valuation levels, particularly in US equities, remain elevated, and any shift in investor sentiment could lead to increased volatility, especially in growth sectors such as technology. Macro data from the US will be key, as stronger-than-expected growth could lead to concerns over a possible delay in further rate cuts, impacting market dynamics, particularly in sectors sensitive to interest rates like financials. Geopolitical risks also present a wildcard, with tensions in regions such as the Middle East capable of impacting energy prices and contributing to broader market risk aversion. Moreover, the US election cycle and the associated policy uncertainties could further contribute to equity market volatility, particularly if there are shifts in fiscal policy outlook or potential regulatory impacts on key environmental pieces of legislation.

* net of fees in USD terms
** net return in USD terms

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