Candriam Sustainable Equity Climate Action

Market Overview

In September, the global stock market ended the month with a modest gain, despite facing a sharp correction in the first week. This initial downturn was largely driven by weaker-than-expected economic data, including the ISM manufacturing index and job openings reports. However, by the end of the month, the market had fully recovered for two key reasons: first, the Federal Reserve implemented a reassuring 50bps rate cut, with Jay Powell acknowledging that they should have cut in July. Second, the Chinese government unveiled a substantial easing package to boost its economy. As a result, Chinese stock indexes surged over 20% in just a few days, and companies tied to China, such as those in luxury goods, semiconductors, industrials, and mining, outperformed the broader market. Overall, investors are still evaluating the trajectory of future rate cuts and the potential impact of sustained high interest rates on the economy.

Sector-wise, Consumer Discretionary, driven by Tesla, outperformed, while the Utilities sector reached new highs following Microsoft's agreement to purchase energy from Constellation Energy in a 20-year deal. In contrast, investors sold off energy stocks as oil prices hit new lows, despite rising geopolitical risks in the Middle East. Defensive sectors like Consumer Staples and Health Care also lagged.

The S&P Global Clean Energy index is up 2.91% during the month. As a result, year-to-date performance stands at -9%.

Portfolio Highlights

In September, the fund returned 2.40%*, in line with its benchmark. The MSCI AC World NR gained 2.32%**. Year-to-date, the fund underperforms its benchmark by 761bp, despite a positive absolute performance of 11.06%*.

In terms of absolute performance, our position in CERES POWER HOLDINGS PLC (Industrials) posted the strongest absolute performance, gaining 52.8%. AMERESCO INC-CL A (Industrials) was the main contributor to the excess return with a positive contribution of 27bp. CERES POWER HOLDINGS PLC as well as TRIMBLE INC (Information Technology) were also strong contributors, impacting positively relative performance by 21bp and 16bp respectively.

Ceres Power had secured Denso Corporation as its fourth major industrial OEM partner, following the announcement of a licensing agreement for solid oxide electrolyser cell (SOEC) technology. Denso plans to leverage Ceres' technology to produce high-quality SOECs, aiming for mass production and contributing to its goal of carbon neutrality by 2035 through green hydrogen utilization. The agreement is expected to generate significant revenue for Ceres through licensing fees and royalties, reinforcing its position in the green hydrogen market without the need for additional fundraising. Overall, this partnership enhances Ceres' credibility and opens opportunities for further collaborations in the future.

Mid-September, Trimble had announced the sale of its Global Transportation Telematics Business to Platform Science, which will result in Trimble acquiring a 32.5% stake in the company and a seat on its board. The deal, expected to close in the first half of 2025, involves a business that generated approximately $300 million in revenue and $30 million in operating profit over the last year. This divestiture allows Trimble to focus more on its high-growth construction technology sector, moving closer to becoming a pure-play construction company.

Last month's worst absolute performers were NESTE OYJ (Energy) and SUNRUN INC (Industrials) that were down 16.9% and 12.0% respectively. The overweight of ASML (Information Technology) was the main detractor from the excess return with a negative contribution of -32bp.

Over September, the AI optimism seemed to have somewhat subsided and this has led to a pullback in ASML, a European semiconductor equipment manufacturer. The capex cuts at Intel as well as fears around a cooling of Semiconductor equipment investment in China have put at risk the 2025 revenue expectations for ASML.

In September, we introduced the two enterprises from the Industrials sector, SIEMENS and CONTEMPORARY AMPEREX TECHN-A to our portfolio (+1.0% and +0.6% respectively). We also increased the positions of the two enterprises based in the United States, NVENT ELECTRIC PLC (Industrials) and MICROSOFT CORP (Information Technology), from 0.5% to 1.0% and from 5.0% to 5.5% respectively. We reduced the portfolio weights of ASML as well as SPIRAX-SARCO (Industrials), from 3.9% to 2.9% and from 1.3% to 1.0% respectively.

Fund Outlook

The investment landscape in 2023 had been marked by a positive year for equity indices, though with uneven performance. Investors went into the first quarter of 2024 optimistic that a soft landing was in store for the economy, whereby a recession would be avoided, inflation would continue to improve, and the Federal Reserve would start cutting interest rates in March. Not only has the economy avoided a recession, it has been stronger than expected. This economic strength, esp. in the US, has translated into inflation remaining higher than expected. In turns, the anticipated policy rate cuts from the Federal Reserve have continuously been pushed out since the start of the year. While investors were pricing in six rate cuts at the start of 2024, this has come down significantly on signs of continued economic strength. Looking ahead to the rest of 2024, a continued soft landing is anticipated for developed economies, with stabilization also expected in the Chinese market.

Next to these broader economic trends, the outlook for the climate change investment theme remains highly positive, underpinned by a confluence of powerful forces that are making renewable technologies increasingly cost-competitive and indispensable.

In the utility-scale power sector, the economics of clean energy have reached a tipping point. It is now cheaper to build new onshore wind and solar projects than to operate existing fossil fuel power plants in most parts of the world. This has led to a surge in renewable energy deployment, with global clean energy investment reaching a record $1.8 trillion in 2023, up 17% from the previous year. Analysts expect this momentum to continue, with battery storage capacity projected to grow by 82% and solar capacity by 40% in 2024 in the United States alone.

Importantly, the clean energy transition is being driven not just by economics, but also by a growing sense of energy security and industrial competitiveness. The global energy crisis of 2022 has underscored the vulnerabilities of fossil fuel-dependent systems, while China's dominance in clean energy supply chains has heightened the strategic imperative for other countries to accelerate their own transitions.

Looking ahead, the commitments made at the COP28 climate summit in 2023 – including the goals of tripling global renewable energy capacity by 2030 and accelerating the phase-out of fossil fuels – are expected to further catalyze the clean energy transformation. Governments, businesses, and citizens are increasingly aligned in their demand for climate action, making the clean energy transition an unstoppable force in the years to come. Overall, the positive trajectory of the Climate theme is driven by both environmental imperatives and compelling economic opportunities.

We remain convinced that the orchestrated efforts between regulators, companies and investors to reach the climate goals provide a multi-decade investment opportunity and that finding the right pockets of the value chains and selecting the right companies within them will lead to alpha generation over time.

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