Candriam Sustainable Equity Europe

Market Overview

August was an eventful month for investors. Any hopes of a late summer lull were quickly dashed at the beginning of month after the publication of disappointing US economic data, together with an interest rate hike by the Bank of Japan. This sparked a sharp sell-off across global equity markets.

However, in the second half of the month, the focus went more towards the higher probability of faster and maybe more Fed rate cuts, while at the same time, strong company results confirmed a resilient global economy. The global stock market recovered and was even able to end on a new historic high.

In Europe, the composite PMI (Purchasing Managers' Index) came in higher than expected, the overall economic backdrop remained weak and earnings from cyclical companies disappointed. Excluding the Olympics, core inflation is running at a 2.8% annual rate and despite weakness in growth, labour markets are holding up. The euro zone unemployment rate declined to an all-time low in July and the labour market looks remarkably stable, suggesting little acute pressure on the ECB to cut rates for this reason.

Portfolio Highlights

In August, European equities closed the month higher despite some volatility. Our overall performance was slightly negative relative to the MSCI Europe NR©. The sector allocation impact was positive: our defensive positioning (overweight Consumer Staples, Healthcare and Real Estate) had a positive contribution, which confirms that the shift in sector leadership from cyclical towards defensive sectors is on track on the back of a lower interest rate environment. Our underweight Energy also had a positive impact. The stock selection contribution was negative, mostly in Industrials (Spirax, Kingspan and Tomra) and Healthcare (Tecan). The stock picking was positive in Materials (DSM-Firmenich and no exposure to mining) and in Financials (Hannover Re, Axa, Munich Re).

Our main transactions:

- In Communication Services, we trimmed our position in Publicis.
- We further increased our exposure to Consumer Staples through Danone.
- In Materials we exited Symrise for valuation reasons.

Fund Outlook

Given the fact that the rate-cutting cycle from central banks has only just started (several rate cuts are expected by year-end, both by the Fed and the BCE), our investment style, focused on quality / growth companies with attractive valuation and good earnings prospects, should continue to pay off.

We remain cautious on cyclical sectors (Industrials, Consumer Discretionary and Banks) due to the global economic slowdown and the less favourable price environment. On the contrary, we remain positive on defensive sectors (Healthcare, Consumer Staples, Real Estate).