

Candriam Sustainable Equity US

Market Overview

14 months on from its last interest rate hike, the Federal Reserve kickstarted its cutting cycle with a 50 basis point move in September. With the unemployment rate having drifted up from a low of 3.4% in April 2023 to 4.2% today, Fed officials have now made it clear that they do not welcome any further weakening in the economy and are keen to quickly move interest rates back to less restrictive levels. Later in the month, the Fed's more circumspect view on the economy was vindicated by the largest monthly decline in consumer confidence in over three years.

We witness conflicting signals from US firms. US private payroll growth has slowed, a typical recession indicator, but other signs like layoffs, equipment spending, and household purchasing power remain stable, with real wage gains supported by lower inflation. US indices closed the month higher (SPX +4.33%, INDU +3.48%, CCMP +6.22% and RTY +3.90).

Fund performance

In September, the fund returned 2.16%*, in line with its benchmark. The S&P 500 NR ended the period up by 2.10%**. Year-to-date, the fund underperforms its benchmark by 272bp, despite a positive absolute performance of 18.98%*.

Sector level

From a sector perspective, our stock selection added to the excess return (28bp) while allocation detracted (-16bp). Our selection in Financials (38bp) generated relative gains. Our stock selection in Health Care (-24bp) on the other hand, penalised the relative performance. The underweight in the Energy sector (17bp) added the most to the excess portfolio return.

Stock specific

With a positive impact of 10bp, the overweight of **HOME DEPOT INC** (Consumer Discretionary) was the main contributor to the excess portfolio return. The overweight of **ELEVANCE HEALTH INC** (Health Care) was the main detractor from the excess portfolio return, detracting by -8bp. Last month's best absolute performers were **GUIDEWIRE SOFTWARE INC** (Information Technology) and **TESLA INC** (Consumer Discretionary), which returned 23.0% and 22.2% respectively. Last month's worst absolute performers were **REGENERON PHARMACEUTICALS** (Health Care) and **ADOBE INC** (Information Technology), which returned -11.3% and -9.9% respectively.

Portfolio activity

In September, we introduced the three American companies, **ONTO INNOVATION INC** (Information Technology), **TENET HEALTHCARE CORP** (Health Care) and **C.H. ROBINSON WORLDWIDE INC** (Industrials) to our portfolio (+0.5%, +0.5% and +0.5% respectively). We also increased the positions of the two American firms, **ELI LILLY & CO** (Health Care) and **HOME DEPOT INC**, from 2.1% to 2.2% and from 1.9% to 2.3% respectively. We sold the three corporations from the United States, **FIRST SOLAR INC** (Information Technology), **DEXCOM INC** (Health Care) and **ALEXANDRIA REAL ESTATE EQUIT** (Real Estate) (-0.3%, -0.4% and -0.3% respectively). We also decreased the positions of the two American firms, **GUIDEWIRE SOFTWARE INC** and **NEUROCRINE BIOSCIENCES INC** (Health Care), from 0.5% to 0.1% and from 0.5% to 0.2% respectively.

* net of fees in USD terms

** net return in USD terms

Fund outlook

We see a clear trend towards a more sustainable world. Authorities around the world are taking the lead by changing regulations. Companies are taking active decisions by adjusting their business models to achieve a better ESG footprint. Consumers are taking ESG criteria into account when buying products and services, and investors are doing the same when evaluating alternatives to invest their wealth. In light of this trend, it is essential to take into account ESG criteria when making investment decisions. The objective of this strategy is to invest in companies that score well on both ESG and financial criteria. We believe that this type of company is well positioned to outperform the market in the long run.

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