Rothschild & Co
Asset Management

Fund Update : R-co Conviction Equity Value Euro — June 2024

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After a break in April, stock markets resumed their upward trend in May. Partly, it was the microeconomic environment, with an earnings season exceeding expectations on both sides of the Atlantic, that fueled this month's rise in index. The MSCI World and the S&P 500 rose by 2.9% and 3.3%, respectively, to reach new records, while the EuroStoxx gained 2.7% over the month[1], without any real cyclical/defensive bias. Commodities (+5.3%) and construction (+5.1%) topped the sectoral performance charts, while autos (-2.8%) and travel and leisure (-5.5%) disappointed[1].

Driven by the theme of "higher for longer" but also by solid fundamentals, the Value style[2] recorded its third consecutive month of outperformance against the Growth style[3]. However, with a gap of 72 basis points (bps), this trend has moderated in magnitude over the past month[1]. The performance difference between the two styles since the beginning of the year is now +1.5% in favor of Growth[1]. While this gap has narrowed in terms of performance, it has not changed at the valuation level, with PE[4] multiples remaining the same compared to the previous month (21.6x for Growth and 9.5x for Value[1]). The continued improvement in fundamentals for the Value style has therefore not translated into a re-rating of the style. The growth premium remains at a historically high level of 127%[1], with the market still seemingly ignoring an inflation and rate environment that is very different from a few months ago when real rates were in negative territory.

In April, R-co Conviction Equity Value Euro gained 3.0% and outperformed its benchmark by 27 bps[5] This outperformance was two-thirds due to allocation effects, notably through our overweight in banks (+3.6% performance over the month) and our underweight in consumer goods (-1.7% performance over the month[6]). The stock selection effect was more marginal but still positive; however, we note the positive contributions from stocks that rebounded strongly over the month (Alstom +28.2%, Société Générale +11.5%), and the negative contribution from Ryanair (-13.1%) following cautious comments from its

CEO on ticket price developments over the summer period[6].

In terms of movements, we have increased our conviction in the food and beverage sector through Kerry Group. The group has suffered from declining volumes in its underlying markets (mainly food), which explains a significant underperformance compared to its peers in the ingredients sector. The normalization of consumption and the recovery of volumes should allow the group to return to a positive EBITDA trajectory and achieve its medium-term goals, which the market seems to doubt[7]. We have also strengthened our positions either in cyclicals that have recently suffered and are likely to outperform if the macroeconomic environment confirms its improvement (AkzoNobel), or in quality cyclicals that have suffered from temporarily disappointing publications but do not question the company's fundamentals (Stellantis, Ryanair[7]).

The scenario of rebalancing between styles continues to unfold as the European economy regains its momentum. The positive momentum seen in soft data in recent months is translating into microeconomic data, as evidenced by a more than encouraging first-quarter earnings season. Earnings expectations are thus beginning to be revised upwards, but remain very modest in certain Value sectors (Banks, Energy, Commodities, Utilities). Given the low valuation ratios in these sectors, the continued decline in inflation, and the improvement in the macroeconomic environment that seems to be taking shape, or even confirming, this part of the market remains, in our view, the most attractive. Note that the return of flows into European equities, still timid for now, could be an additional factor supporting the progression of stock markets in the coming months.

Weitere Infos zu den Fonds

R-co Conviction Equity Value Euro

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(1) Source : Bloomberg, 31/05/2024.
(2)) A "value" strategy refers to when investors seek out companies undervalued by the market at a given time, meaning their market valuation is lower than it should be based on the company's earnings and asset value. Value investors select securities with low price-to-book ratios or high dividend yields.
(3) Investors favoring the "growth" style focus mainly on the earnings growth potential of companies, hoping that revenue and profit growth will exceed that of their sector or the market average.
(4) Price-Earnings ratio: price-to-earnings ratio.
(5) Source : Rothschild & Co Asset Management, 31/05/24. Part C EUR. Index: Euro Stoxx ® NR.
(6) Source : Rothschild & Co Asset Management, 31/05/24.
(7) The above information does not constitute investment advice or a recommendation

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(1) Quelle: Rothschild & Co Asset Management, 31/07/2026.

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