Rothschild & Co
Asset Management

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

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The trends of January accelerated in February. Equity markets reached new highs, disregarding persistent inflation, cautious central bank tone, and a tightening interest rate environment. The MSCI World rose by +4.8% , driven in particular by the S&P 500 index up by +5.8%[1], the surge of the Magnificent 7 (+8.8%)[1], and especially the breakthrough of Nvidia (+29.2%)[1] whose announcement and outlook have fuelled what seems to be the sole interest of investors at the start of this year, Artificial Intelligence. Europe shadowed this movement to a lesser extent with an increase of +3.3% for the Eurostoxx1. While technology continued to outperform the market (+5.0%), Automobiles (+13.0%) and Consumer Goods (+7.9%) were the best sectors of the month, with the market welcoming good support compared to low expectations. Utilities (-6.4%) and Real Estate (-9.2%) on the other hand, were penalized by rising interest rates[2].

This context largely supported the Growth Style[3], which outperformed the Value Style[4] by almost 6% over the month, bringing the YTD outperformance to 11.5%[5]. This is simply the strongest outperformance of one style over the other over a two-month period. In Europe, Value now has a P/E of 9.1x compared to 22.0x for Growth[7]. Also, while the market has returned to its median level (12.9x)[1], Growth carries a premium of 33% compared to its median level and Value is priced at a discount level of 18%. The premium level of Growth over Value is therefore today 143%, very close to its historical high, while the Bund remains at a 10-year high of 2.4%. This premium was around 100% on the eve of the Covid crisis, while the Bund was in negative territory (~-0.5%)[8]

Over the month, R-co Conviction Equity Value Euro was down -0.6%[9]. The underperformance compared to its benchmark index was mainly explained by the

allocation effect, penalised in particular by its underexposure to consumer goods (+7.9%)[5] and by the underperformance of raw materials (-5.7%)[5]. With respect to the stock selection effect, despite strong earnings reports and good performance from some of our positions (Siemens +12.1%, Unicredit +13.8%, Mercedes +17.2%)[5], it was also unfavorable due to the rise of Growth Stocks representing a significant weight in the index (Schneider Electric +14.7%, ASML +9.2%, LVMH +9.0%). The logical decline in Vonovia in the face of rising interest rates (-11.2%)5, also impacted the fund's performance.

In terms of movements, we have introduced KBC into our portfolio. This quality Belgian bank (average RoTE of 14.5% over 10 years)[5] suffered in 2023, in particular due to a State bond issue which caused liquidity stress on the Belgian banking system. It is exposed to oligopolistic (Belgium) and dynamic (Czech Republic) markets, and offers higher growth prospects than its European peers, while having less sensitivity to changes in interest rates. Our level of overexposure to the banking sector was, however, maintained at around 5% since we financed this new conviction by reducing securities whose rate sensitivity seemed too high to us in the current environment (Intesa, Bankinter), or whose visibility seemed diminished to us at the start of the year (Société Générale, BNP).

Despite the reduced expectations of rate cuts priced by the bond market, in line with the cautious discourse of Central Banks, the stock market seems to have entered into the "Goldilocks[10] " scenario combining falling inflation with sustained economic growth. Equities could also benefit from returning flows given the 8 trillion dollars that are currently in money market funds, and whose yield is set to deteriorate as rates fall. From a valuation standpoint, however, this ideal "Goldilocks" scenario seems to us to already be largely integrated into the Growth style. If the improvement in the economic outlook has already led to a re-rating of the equity market, it has done so almost exclusively through this style, since the PE of the Value style remains at a level close to that of the last recessions (financial crisis, sovereign crisis, Covid crisis). Rebalancing between styles should therefore occur as optimistic outlooks materialize. This should also be beneficial to earnings expectations for certain emblematic Value sectors, expectations that still appear very modest in the case of a favorable macroeconomic environment.

Weitere Infos zu den Fonds

R-co Conviction Equity Value Euro

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(1) Source: Bloomberg 04/03/2024 - total performance return in €
(2) Source: Bloomberg, 04/03/2024
(3) An investor favouring "growth" focuses mainly on the growth potential of companies' profits, hoping that the growth in turnover and results will be higher than that of their sector or the market average.
(4) A "value" strategy is one in which the investor looks for companies that are undervalued by the market at a given time, i.e., one whose market valuation is lower than what it should be at the moment with regard to the results and the value of the company's assets. "Value" investors select stocks with low price-to-book ratios or high dividend yields.
(5) Source: Bloomberg, 04/03/2024
(6) Price to Earnings ratio
(7) Source: (Source: Factset, Goldman Sachs Investment Research 04/03/2024
(8) Source: Bloomberg, 04/03/2024
(9) Source: Rothschild & Co Asset Management, 29/02/2024
(10) Fall in inflation, sustained growth

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

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