Rothschild & Co
Asset Management

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

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The equity market rally of November spilled over into December, with 2023 ending at new highs. The indices were up on the month by 3.3% (MSCI World), 2.9% (S&P 500) and 3.3% (EuroStoxx), bringing their year's returns to 20.5% (MSCI World), 22.2% (S&P 500) and 18.6% (EuroStoxx) (1). The **rally** was driven by **relatively strong macroeconomic data, by a further receding in inflation** and, above all, by the **latest FOMC** (2) **meeting**, which struck a far more accommodative tone and opened the door to three or four rate cuts in 2024. A further decline in bond yields boosted the Real Estate sector (+11.1%), and hopes for a positive macroeconomic outlook showed up in gains by cyclical sectors, including Leisure & Travel (+6.6%), Industrials (+6.3%), and Chemicals (+6.0%) (3).

This environment favoured the Growth (4) style somewhat, and it outperformed Value (5) by 61 basis points (bps) on the month and by 362 bps on the year) (6). Value is now trading at a 9.1x P/E (7) vs. 20.4x by Growth (8). In Europe, Value is therefore still trading at an 18% discount to its 20-year historical median (9,1x vs. 11.1x), whereas the market as a whole is almost back in line (at 12.8x vs. 13.1x), and Growth is trading at a 24% premium (at 20.4x vs. 16.5x) (8).

On the month, and despite Value's underperformance, **with a 3.4% gain R-co Conviction Equity Value Euro slightly outperformed its benchmark (+3.2%)** (9). Allocation worked against us, due to our overweighting of Energy and Telecommunications, but this was more than offset by strong gains by some of our convictions (Vonovia +11.7%, BASF +14.3%, and Arcelor +11.1%)18. All in all, for the full year 2023, the fund gained 19.1%, thus outperforming its benchmark (+18.6%) for the third consecutive year (9). **Despite encouraging economic data in December**, **investors were very quick to price in central**

bank rate cuts. **The markets now seem to be pricing in a perfect landing (10) more than a mere *soft landing*** (11). We therefore saw this as a good time to take some profits on stocks that are vulnerable to lower interest rates (Vonovia and Forvia) and on cyclicals that rode the yearend rally in full (Arcelor at +27.8% since 10 November 2023) (3). Meanwhile, we added to our exposure to Energy, a sector whose cashflow remains especially attractive and in which oil prices do not seem to reflect current geopolitical tensions.

A further receding inflation in the coming months would probably be followed by rate cuts. This scenario already seemed to be partly borne out in late 2023, and we doubt that it will move in a straight line thereafter. **This scenario is likely to trigger a rerating of equities and already appears to have been priced into Growth. But not into Value**, which is even more attractively priced as earnings forecasts are undemanding in its in its flagship sectors (Energy and Banks in particular). The current environment, which is otherwise making equities more attractive, is therefore likely to remain favourable to R-co Conviction Equity Value, which is now solidly outperforming its benchmark (+8.4% over the past three years) (12).

We look at these points in more detail in our 2023 Review and 2024 Outlook.

Learn more about the fund(s)

R-co Conviction Equity Value Euro

Check this document on our website

(1) Source : Bloomberg, 05/01/2024. Performances with dividends reinvested.
(2) Federal Open Market Committee.
(3) Source : Bloomberg, 05/01/2024.
(4) Growth investors focus mainly on companies' growth potential, hoping that revenues and earnings will increase more than the sector or market average.
(5) The value style consists in investing in discounted companies, i.e., those whose share prices at a given moment are below what they should be on the basis of their results and the value of their assets. Value investors select stocks with low price/book ratios or high dividend yields.
(6) Source : Bloomberg, 05/01/2024.
(7) Price Earning
(8) Source: FactSet, Goldman Sachs Investment Research 27 November 2023.
(9) Source : Bloomberg, Rothschild & Co Asset Management, 05/01/2024. Part C EUR vs. Euro Stoxx ® NR.
(12) Source : Bloomberg, 29/12/2023

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More information at: www.am.eu.rothschildandco.com

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

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