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

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Equity markets ended the first quarter on a another positive note, adding low volatility to an ongoing performance since late October 2023. The MSCI World and the S&P 500 each gained a further 3.3% over the month, with respective performances over the quarter of +11.7% and +13.3 %[1]. The Eurostoxx was not left behind with a gain of +4.5% in March with a gain of +4.5% in March (+10.0% over the quarter), helped by a PMI Composite which went back to 50 for the first time since May 2023[2]. While speciality retail (+16.7%) and banks (+14.0%) benefited from this embellishment, real estate (+8.4%) was more driven by the Fed's ‘dovish[3]" speech than by the evolution of interest rates, which remained high. On the other side of the sector spectrum, consumer goods (-0.1%) and food retail (-2.5%) were the only two sectors in the red over the month, penalized in particular by Kering (-13.8%) and Hellofresh (-48.5%)[1].

While the market continued its rally, the style trend was relatively reversed. In the Eurozone, Value style[4] overperformed the Growth style by +4.6% over the month , reducing its underperformance since the beginning of the year from -11.5 points to -7.2 points[1]. The valuation ratios of both styles, however, evolved in similar trends (from 9.1 x to 9,5x for Value and from 22.0x to 22.5x for Growth), leaving the growth premium on Value at 137%, close to historical highs. In view of the rate environment that has changed considerably over the last 4 years, this premium, which was around 100% when the Bund was in negative territory, still seems to us to be largely exaggerated[5].

Over the month, R-co Conviction Equity Value Euro gained 5.2% and outperformed its benchmark by 64 basis points. While the allocation effect was very favorable, especially because of the weight of the banks that remain the first conviction of our portfolio (BNP +18.9%, Bankinter +17.1%, Intesa +14.4%, Société Générale +10.6% in March), the selection effect was disappointing, especially on our only two stocks (CapGemini -5.1%, STMicroelectronics -4.2%) in the technology sector, where the signs of slowdown have tempered the euphoria of recent months[1].

In terms of movements, we sold our stake in Mercedes. Although the cash distribution policy has helped the stock YTD (+18 %[1]), increasing Chinese competition is threatening its market segment and softening pricing power[6]" in general have led us to look at other investment opportunities. In this sense, we increased Forvia's weighting in the portfolio, considering that the fall in the stock since the beginning of the year (-35.5 %[1]) was an opportunity in view of the Group's operational improvement, strengthened restructuring measures, the diversification of its customers and the low expectations of the market on the evolution of global automotive market volumes. This stock is also very sensitive to interest rate changes due to its level of indebtedness, which could be beneficial in the context of loosening future monetary conditions. Our more constructive view than the consensus on the evolution of gas and carbon prices also led us to strengthen our conviction on the utilities sector via RWE.

The rebalancing scenario between the styles we mentioned last month therefore happens as the economic outlook improves. It should strengthen when the positive momentum observed in 'soft data' transfers to 'hard data' in macroeconomic and microeconomic terms. In this sense, EPS growth expectations[7] in certain Value sectors (banks, energy, commodities, utilities) remain very modest and are likely to be revised upwards over the year. Given the valuation ratios we have already mentioned, the scenario of inflation decline and robust economic performance that seems to be confirming is already integrated into the Growth side of the market but not at all into the Value side, which continues to trade at levels barely higher than during the last crises. If the equity market were to benefit from the return of flows that have been allocated in monetary in recent years, it seems to us appropriate to reconsider the attractiveness of the Value style which could therefore couple both EPS revisions and re rating.

Learn more about the fund(s)

R-co Conviction Equity Value Euro

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(1) Source : Bloomberg, 04/04/2024. Performance net dividends reinvested in euros.
(2) Source : Bloomberg, 04/04/2024.
(3) Positioning in favor of a less restrictive monetary policy.
(4) Value is referred to when the investor looks for companies undervalued by the market at a given moment, that is, whose market valuation is lower than it should be with regard to the results and value of the assets of the company. value investors select stocks with low price to book ratios or high dividend yields.
(5) Source: FactSet, Goldman Sachs Investment Research, Bloomberg, 04/04/2024.
(6) A company's ability to increase its prices by keeping its clients.
(7) Earnings per share.

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