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

Anthony Bailly
Head of European Equity

Vincent Iméneuraët
European Equities Portfolio Manager

Although equity indices finished the month of August higher, it was nevertheless a very turbulent period, with falls of between -6% and -8% for the US and European indices over the first five days of the month. The publication of a disappointing ISM[1] manufacturing index and a marked slowdown in the US employment market reawakened fears of a recession that investors had finally stopped thinking about. However, reassuring data on the US consumer, the continuing fall in inflation and confirmation from J. Powell that 'the time had come for monetary policy to adjust' enabled the European indices to catch up and end the month at their highest level. In the end, the MSCI World gained +0.4%, the S&P 500 +0.2% and the Eurostoxx +1.5%[2].

The return of fears of an economic slowdown favoured defensive sectors (insurance, telecoms) and penalised cyclical sectors (energy, technology, commodities). However, the Value[3] and Growth[4] management styles performed almost equally well in this admittedly volatile market, in which sovereign interest rates changed very little (the Bund was stable over the month and there was a slight fall of 10 basis points in the US 10-year[5]). The performances of the two styles since the start of the year therefore remain very similar (+11.5% for Value and +11.9% for Growth[5]). With PE multiples[6] of 22.3x for Growth and 9.7x for Value respectively, the valuation premium for the Growth style has nevertheless risen from 127% to 130% over the month[7], and remains at a historically high level, equivalent to that which prevailed when real rates were still negative, a period which we now believe to be over.

Over the month, R-co Conviction Equity Value Euro gained +0.8% and underperformed its benchmark by 74 bps[8]. While **our allocation effect was positive,** notably through our marked under-exposure to the technology sector, which struggled over the month (down -1.35%[5]), **the stock selection effect suffered via our most cyclical holdings** (Société Générale -9.0%, Forvia -14.7%). However, our two largest overweights in the portfolio held up well: Sanofi gained +6.1% on the back of its defensive credentials and a quality publication, as did Vonovia (+9.8%)[5].

In terms of movements, we sold two of our positions during the month: 1/ Inditex, a stock in which we had invested in the spring of 2022 when the Iberian company was suffering from the climate of tension in Europe and had seen its margins collapse. At the time, the stock was trading at a PE of 16.5x, far from its high points and historical norms. Since then, the share price has gained almost 140%, and the PE of 24x is no longer compatible with our Value[5] bias. 2/ CCEP, which had significantly outperformed the market since the start of the year (+21.9%) due to its status as a quality stock, but without any real fundamental justification since its EPS[9] was revised downwards by -2% over the same period[5]. These disposals were reinvested with a view to maintaining the portfolio's cyclical/defensive balance. We therefore strengthened Pernod Ricard on the back of very low expectations for the stock, ABinBEV on the back of its good results and continued deleveraging[10] , and Airbus and STMicro to take advantage of the risk premiums that could be created by weaknesses in these stocks, whose outlook remains very solid.

Even though the indices continued to rise, the month of August brought back macroeconomic worries that have not entirely dissipated. In fact, some of them have been confirmed by the slowdown in the US economy, although this does not mean that the country is heading for recession. However, the ‘no landing[11] ’ scenario now seems utopian, which is logical given the strong cycle of monetary tightening we have just experienced. **The question now is whether the cycle of rate cuts that central banks are beginning comes too late to avoid a recession. We do not think so, and continue to favour a scenario of sluggish but positive growth.** Nevertheless, this return to reality and rationality should, in our view, also be reflected in the deflation of certain valuation ratios and in the less concentrated performance of the equity market. **The Value style, which in our view has already been incorporating a slowdown in the economy for several months, seems to us to be more immune to macroeconomic uncertainties and disappointments than the Growth style.** The rebalancing between styles should therefore continue, both as a result of a normalisation of activity and the integration of a new interest-rate paradigm, which still does not seem to have been adopted in terms of management style.

Learn more about the fund(s)

R-co Conviction Equity Value Euro

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[1] Source: Bloomberg, 31/07/2024.
[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] Sources: Factset, Goldman Sachs Investment Research, 02/08/2024.
[5] Sources: Bloomberg, Rothschild & Co Asset Management, 31/07/2024. C EUR share vs. Euro Stoxx NR index.
Performance R-co Conviction Equity Value Euro since 10 years: 47,6%
Annual Performance : 2023 : 19,1% | 2022 : -9,6% | 2021 : 26,3% | 2020 : -9,85% | 2019 : 17,6% | 2018 : -12.7% | 2017 : 12.5% | 2016 : 4.15% | 2015 : 10.3% | 2014 : 4.1%
[6] Scenario in which growth remains strong, encouraging central banks to keep interest rates high and inflation one or two points above the 2% target.

Completed writing on September 5, 2024.

The risk indicator assumes that you hold the product for 5 years. The actual risk may be very different if you opt to exit before maturity, and you may get less in return. We have classified this product in risk class 5 out of 7, which is between medium and high risk and mainly reflects its positioning on the Eurozone equity market. In other words, the potential losses linked to the product's future results are between medium and high, and if the situation were to deteriorate on the markets, it is likely that our ability to pay you would be affected. As this product does not provide market protection or a capital guarantee, you could lose all or part of your investment.

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France

29, Avenue de Messine
75008 Paris
+33 1 40 74 40 74

Belgium – Netherlands – Luxembourg

Rue de la Régence 52
1000 Bruxelles
+32 2 627 77 30

Switzerland

Rothschild & Co Bank AG
Rue de la Corraterie 6
1204 Genève
+41 22 818 59 00

Italy

Passaggio Centrale 3
20 123 Milano
+39 02 7244 31

Germany - Austria

Börsenstraße 2 - 4
Frankfurt am Main 60313
+49 69 299 8840

Spain

Paseo de la Castellana 40 bis
28046 Madrid
+39 02 7244 31

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