Rothschild & Co
Asset Management

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

Anthony Bailly
Head of European Equity

Vincent Iméneuraët
European Equities Portfolio Manager

After the market's growth in May, in Europe, June was marked by increased volatility and a downturn in performance. A sense of political instability has indeed settled within the Old Continent following the results of the European elections and the announcement of the dissolution of the National Assembly in France that followed. The return of political fears and the anticipation of a rise in power of radical parties in France are therefore penalizing European markets, which are underperforming compared to American and global indices in June. The MSCI World and the S&P 500 progressed by +3.3% and +4.9% respectively, reaching new records, while the EuroStoxx lost -2.7% over the month[1]. Only three sectors finished in the green: technology (+7.3%), specialty retail (+3.7%), and media (+0.1%), while construction (-8.7%), raw materials (-7.9%), and real estate (-7.4%) suffered the most[2].

Heavily impacted by the return of political instability, the Value style[3] showed a clear underperformance for the month with a decline of 4.4% compared to a 0.3%[1] increase for the Growth style[4]. While the performance gap between the two styles had significantly narrowed over the past three months, it is now 6.7% since the beginning of the year to the end of June in favor of the Growth style[1]. The underperformance of the value style for the month can be explained by both the underperformance of cyclical value sectors and the very good performance of the technology sector, which continues to benefit from favorable AI prospects. This movement has resulted in widening valuation gaps between the styles. The valuation of the Growth style is now close to its historical highs at 22.4x P/E[5], compared to 9.4x for the value style, which is approaching its historical lows[6].

In June, R-Co Conviction Equity Value Euro showed a decline of 6.6%, underperforming its benchmark index by 3.9%[7]. This underperformance can be explained one-third by an allocation effect, notably through the fund's underexposure to the technology sector, and

two-thirds by an unfavorable selection effect. Again, not being invested in SAP and ASML largely cost us, but our overweighting of French stocks that particularly suffered in the automotive (Forvia), banking (Société Générale, BNP Paribas), and utilities (Engie) sectors largely explains this negative effect.

Besides participating in Alstom's capital increase, we made only one move during the month of June by selling our position in Eiffage in the construction sector. Regardless of the election outcome, it is indeed unlikely that the group will succeed in extending the duration of its highway concessions in France, which was one of the pillars of the investment case. We have, however, decided to retain our positions in other French stocks. As often happens, the market strongly reacted to this unexpected event, which resulted in a marked increase in the OAT/Bund spread[8] that has since decreased. We believe that the sharp drop in French stocks reflects the risk of one of the extreme parties (right or left) obtaining an absolute majority. The first-round results seem to dismiss these scenarios. Thus, the French exposures of BNP Paribas and Société Générale are limited to 25% and 40%[9] respectively. A 10-point increase in taxes on profits in France would have an impact on EPS of less than 10% for each of these banks[9]. Therefore, the sharp decline in these two stocks seems exaggerated to us. Consequently, even though finding a majority may be difficult after the second round, avoiding these scenarios should reassure investors in the short term.

Political instability could weigh on French growth in the short term, but the necessary elements for a positive dynamic for stocks remain in place: the scenario of weak but positive growth in Europe remains current, inflation normalization is confirmed, and the ECB has initiated its first rate cut. The recent underperformance of the Value style, making its valuation even more attractive, presents an opportunity as the rebalancing scenario between the styles should continue.

Completed writing on July 4, 2024.

Más información sobre los fondos

R-co Conviction Equity Value Euro

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[1] Source : Bloomberg, 28/06/2024.Indices with dividends reinvested in euros.
[2] Source : Bloomberg, 28/06/2024.
[3] 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.
[4] 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.
[5] Price-Earnings ratio : price-to-earnings ratio.
[6] Source: Goldman Sachs, 28/06/2024.
[7] Source : Bloomberg, Rothschild & Co Asset Management, 28/06/2024. Part C EUR vs. Euro Stoxx.
[8] Yield gap between a bond and an equivalent maturity loan deemed "risk free".
[9] Source : JP Morgan, July 2024.

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

France

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

Bélgica – Países Bajos – Luxemburgo

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

Suiza

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

Italia

Passaggio Centrale 3
20 123 Milano
+39 02 7244 31

Alemania – Austria

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

España

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