Rothschild & Co
Asset Management

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

Anthony Bailly
Head of European Equity

Vincent Iméneuraët
European Equities Portfolio Manager

After a two-phase development, equity markets closed out September on the rise. **Initially penalized by disappointing indicators in the US** (ISM manufacturing and job creation in particular), indices suffered a significant correction at the beginning of the month (MSCI World -4.1% in the first week of the month)[1]. However, **the announcement of the long-awaited monetary pivot by the Fed**[2] countered this trend and sparked renewed optimism among investors. At the end of the month, the Politburo's **announcement of substantial measures to support the Chinese economy** prolonged this positive market trend and contributed to the overall rise in equities. Over the month, the MSCI World gained +1.0%, the S&P 500 + 1.2% and the Eurostoxx +1.0 %[3].

The sector performances were obviously dependent on these various events, but also on idiosyncratic stories such as the strong Inditex publication which pulled the retail sector over the month (best sector performance of the Eurostoxx with a rise of +9.2%)[3]. The real estate and utilities **sectors benefited from the interest rate environment and the resolutely dovish**[4] tone of central banks with respective increases of +5.8% and +3.7 %[3]. On the other side of the spectrum, **the automotive sector suffered a slowdown in consumption**, as illustrated by the the succession of profit warnings[5] in European car manufacturers and a sharp underperformance of the sector over the month (-6.3%)[3]. The decline in other cyclical sectors (Energy -2.7% and Technology -1.7%)[3] also illustrated the macroeconomic concerns mentioned above.

In terms of investment style, **Value**[6] **performed in line with the market and outperformed Growth**[7] **by 60 basis points**[3]**.** The latter was mainly penalized by the decline of some of its flagship stocks, such as ASML (-8.2%) whose growth prospects are

starting to be questioned by some analysts. While we are indeed in the central bank pivot year, **the performances of the two styles since the beginning of the year remain very close** (+12.6% for Value and +12.4% for Growth)[3]. However, with P/E multiples of 22.3x for Growth and 9.9x for Value respectively, the Growth style valuation premium on Value, stands at 125% and remains very high[8]. This level is the same as when real rates were still negative. In our view, **the market is lagging to act upon valuations in what we consider to be a paradigm shift** in terms of the inflation environment and the level of interest rates.

R-co Conviction Equity Value Euro gained +1.6% over the month and outperformed its benchmark by 50 basis points[3]. The fund's outperformance was due, for 75%, **to a positive allocation effect**, in particular, through our underexposure to the technology sector[3]. **Stock picking explained** the rest of the outperformance, with some fine progressions, such as ArcelorMittal (+11.2%)[3], which benefited from hopes of a recovery in the Chinese economy. However, we would note the weakness of some qualitative cyclical convictions, such as Stellantis (-16,3%)[3].The need to normalise its vehicle inventories in the US led the group to downgrade its margin outlook and forecast a largely negative Free Cash Flow for the year.

During the month, **we adjusted our portfolio by reducing our exposure to the energy sector and initiating a new position in real estate**. Regarding the energy sector, OPEC's firm stance on not extending its production cuts along with a stagnation of global demand suggested a market in an oversupplied in the coming quarters. Our neutral view on the evolution of oil prices in the medium term has led us to reduce our overexposure through **TotalEnergies**, which could also be impacted by new taxes introduced by the French government. As for real estate, we aimed to strengthen our exposure to this sector, which is negatively correlated with interest rate movements. We decided to do so through **Gecina.** This office property manager in Paris seems well-positioned to benefit from the sector's revaluation and will be supported by i) the rebound in the valuation of its real estate portfolio, ii) sustained rental growth on its premium assets, and iii) a promising asset pipeline.

Even if the Fed's pivot is underway and the Chinese economy has concrete support measures in place, **market doubts about the macroeconomic outlook do not seem to be fully dissipated,** especially as geopolitical tensions remain strong. However, the “soft landing” scenario remains credible and is supported on both sides of the Atlantic by solid employment and real wage growth. **The Value style allows exposure to defensive sectors negatively correlated with interest rate cuts** (real estate, utilities, telecoms, food & beverages) **and, on the other hand, to financial and cyclical sectors that incorporate a deteriorating economic scenario**, as we mentioned in our article "Value style, a source of opportunities in a context of rates cutes." The significant discount in the valuation of the Value style already reflects a deterioration in the economic situation, offering significant rebound potential if the “soft landing” scenario materializes.

Más información sobre los fondos

R-co Conviction Equity Value Euro

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R-co Conviction Equity Value Euro performance over the last 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%
[1] Source: Eurostoxx from 30/08/2024 to 06/09/2024.
[2] Federal Reserve Board.
[3] Source: Bloomberg as at 30/09/2024.
[4] Moderate, conciliatory and accommodating attitude or approach to monetary policy adopted by a central bank.
[5] 'Earnings warning' is a warning issued by a company to inform investors and the public that its financial results will be lower than initially forecast or expected.
[6] A 'value' strategy is one in which the investor seeks out companies that are undervalued by the market at a given time, i.e. whose stock market valuation is lower than it should be in view of the company's results and the value of its assets. Value investors select stocks with low price-to-book ratios or high dividend yields.
[7] Growth investors focus primarily on the earnings growth potential of companies in the expectation that their sales and earnings growth will outstrip that of their sector or the market average.
[8] Source: Goldman Sachs Investment Research, FactSet 30/09/2024.

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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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(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