Rothschild & Co
Asset Management

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

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The equity markets' yearend 2023 optimism spilled over into January, with most of them hitting new highs. The MSCI World gained 2.9%, driven mainly by the S&P 500's 3.7% performance, including yet another robust outperformance by the Magnificent 7[1]. This momentum, which remained undaunted even in the face of more cautious language from central banks, was driven by new and solid macroeconomic data, particularly in the US, and the further receding of inflation. The euro zone, with its economy less robust than the US, underperformed, with the EuroStoxx nonetheless gaining 2.0%[1]. AI's popularity as an investment theme drove the performance of Technology (+7.6%)[1] and Media (+5.9%)[1], while gains by Leisure & Travel (+6.0%)[1] highlighted growing hopes for a perfect landing . On the other end of the spectrum, the lack of positive momentum in China penalised commodities (-4.8%)[1], while utilities (-3.8%)[1] took a hit from both higher interest rates and a decrease in natural gas prices[2].

This backdrop was a big driver of the Growth style[3], which outperformed Value by 527 basis points in January[1] . All in all, Value is now trading at a P/E[4] of 8.9x, vs. 20.9x for Growth. In Europe, Value is now trading at a 20% discount to its 20-year historical median (8.9x vs. 11.1x), while the market as a whole is now back in line with its own median (12.9x), and Growth is trading at a 27% premium (at 20.9x vs. 16.5x)[5]. We therefore feel that the downward trajectory in interest rates and the perfect land scenario have already been priced into growth sectors, but not into Value.

On the month, R-co Conviction Equity Value Euro took a hit from its Value bias while still

slightly outperforming that style and gained just +0.2%[6]. Its underperformance vs. its benchmark index was due mainly to allocation, which was hit hard by our underweighting of Technology. The same headwind occurred in stock-picking, as the fund holds no shares in ASML and SAP, which gained, respectively +17.1% and +15.3% and now alone account for almost 8.5% of the index[7]. We did have a few reasons to be happy. ProSieben (+18.3%) was boosted by a shift (awaiting confirmation) in the German economy, and Capgemini (+9.8%) is still benefiting from interest in AI.

In terms of portfolio transactions, we reduced our overweighting of energy. While it is still attractive for cash generation and redistribution, we see less potential for an EPS rerating, due to Saudi Arabia's difficulty in enforcing OPEC+ production quotas, and the outlook for an oil market that is now balanced for 2024. We opened a position in Pernod Ricard, which had underperformed steeply in 2023, due to weak consumption in China and the US. There are several signs that these markets have bottomed out in terms of consumption, and this could trigger an about-face in EPS momentum and a re-rating for what remains a quality company that is sensitive to lower interest rates. Lastly, we sold into the post-release rally by Nokia (+10% on 25 January)[8] to sell off this position, which was no longer significant, and because shrinking capex by telecom operators and the threat posed by the ramp-up of RAN technology appear to cut into growth potential.

Solid macroeconomic data in January tend to highlight that the markets got a little ahead of themselves in late 2023 in anticipation of key rate cuts. As a result, although sovereign yields have recovered slightly early this year, we believe the markets are still rather complacent regarding the attitude of central banks, which want to avoid the excessive optimism, which came at a high price in the 1970s. Their attitude and, ultimately, interest rate trends, will depend on the pace of receding in inflation. As for the equity markets, while the "Goldilocks[9]" scenario is still obviously the most favourable, we feel it is already mostly priced into Growth, whose premium is back close to its highs. However, this doesn't seem to be the case for Value, whose valuation is likely to get a boost from the recovery being flagged by confidence surveys and whose EPS growth forecasts look very modest, in light of the solid macroeconomic environment.

Ulteriori informazioni sui fondi

R-co Conviction Equity Value Euro

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(1) Source: Bloomberg 3 February 2021, performances in total return, in euros
(2) Source: Bloomberg 3 February 2021
(3) Growth investors focus mainly on companies' growth potential, hoping that revenues and earnings will increase more than the sector or the market average.
(4) Price/Earnings ratio
(5) Source: FactSet, Goldman Sachs Investment Research, 3 February 2021.
(6) Source: Rothschild & Co Asset Management, 31 January 2024.
(7) Source: Bloomberg, 3 February 2021
(8) Source: Bloomberg 3 February 2021
(9) Receding inflation, solid growth

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

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