Rothschild & Co
Asset Management

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

Anthony Bailly
Head of European Equity

Vincent Iméneuraët
European Equities Portfolio Manager

In the run-up to the US elections, equity markets showed negative regional trends in October. Across the Atlantic, although the S&P 500 index gained 1.7% in euro terms[1], this was essentially due to the appreciation of the dollar, which, along with the rise in the US 10-year yield, reflected the market's assessment of a possible Republican victory. In dollar terms, the S&P 500 fell by 0.9%, penalising the performance of the MSCI World index (-2.0% in $ total return, +0.6% in € total return)[2]. Europe continued to suffer from more mixed economic data, both from a macroeconomic and microeconomic point of view, and the Eurostoxx fell by -3.1%, recording its biggest monthly decline since October 2023[2].

The third-quarter publication season in Europe confirmed the slowdown underway and led to downward revisions of -2.3% EPS[3] growth forecasts for 2025, which are now expected to be +8.4%[4]. This loss of momentum was reflected in the fall of flagship stocks such as ASML (-16.3%), Pernod Ricard (-14.9%), L'Oréal (-12.01%) and LVMH (-8.2%)[2], **impacting both style dynamics and sector performance.** Growth sectors, such as technology and consumer goods, fell by -7.6% and -9.9% respectively, while commodities lost -8.6% in the absence of details about China's economic stimulus plan[2]. By contrast, the leisure and travel (+7.9%) and telecoms (+1.4%) sectors benefited from positive publications. Banks (+3.0%) also benefited from a persistently high interest rate environment.

Against this backdrop, the Value style[5] outperformed the Growth style[6] by +2.5% over the month[7], taking its year-to-date outperformance to +3.1%[2]. This momentum, which may seem counter-intuitive in this year of central bank pivots, can be explained in

particular by the solid fundamentals and continuing favourable earnings momentum of Value style companies. Indeed, over the last 14 publication seasons, Value companies have surprised more on the upside than Growth companies[8]. However, this is still taking time to be reflected in valuation premiums, with the growth over the value (supprimer le “premium”) narrowing only very gradually. It remains close to its all-time high, at 120% (21.1x P/E for Growth versus 9.6x P/E for Value), a level seen when real interest rates were negative. Based on our conviction that the interest-rate environment has changed paradigm, we believe that this normalisation of the valuation premium is only in its early stages and should continue over the medium term, with rates higher than in the pre-Covid decade.

R-co Conviction Equity Value Euro outperformed its benchmark by 99 basis points[2], with a return of -2.2%. This outperformance was largely due to a favourable allocation effect, with the fund benefiting from its under-exposure to growth sectors in difficulty (consumer goods and technology), as well as its over-exposure to the banking sector. It was in the latter sector that the selection effect was most favourable, thanks in particular to the 18% rise in Société Générale[2], whose improved operating performance, which began several months ago, is now beginning to be recognised by the market. However, the best contribution to performance came from the sharp fall in ASML (-16.5%)[2], which was not in our portfolio, following a profit warning that called into question the very optimistic consensus expectations for the Dutch group's growth prospects.

During the month, we made marginal adjustments to our portfolio, taking advantage of temporary weaknesses to strengthen certain convictions, such as AB InBev. The stock fell by 7.4%[2] over the month on the back of disappointing volumes for the quarter, but we are seeing a recovery in momentum in the United States and, above all, a gradual reduction in the group's debt. We also took advantage of the rise in interest rates and the underperformance of the property sector to strengthen our position in the office property company Gecina, which we started last month. These adjustments were financed by a partial reduction in the best-performing positions of recent months (Sanofi, Alstom, Unicredit).

The outcome of the US elections and the forthcoming Chinese stimulus plan (the details of which have yet to be worked out) now seem to favour regional growth trajectories that are more independent of one another, with inflation fuelled by the taxation of international trade. Although central banks have begun to ease monetary policy, we remain convinced that the current short- and medium-term interest rate regime is one of ‘higher for longer’[9], and that interest rates will fall gradually. This should lead to a normalisation of valuations and a gradual reduction in the premium for Growth over Value, which has only just begun to emerge for the time being.

Meer informatie over de fondsen

R-co Conviction Equity Value Euro

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R-co Conviction Equity Value Euro performance over the last 10 years: 52.72
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: Bloomberg, 31/10/2024 - total return in €.
[2] Source: Bloomberg, 31/10/2024.
[3] Earnings per share.
[4] Source: Exane, 'Summary of the month', 05/11/2024.
[5] 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.
[6] Growth investors focus primarily on a company's earnings growth potential in the expectation that sales and earnings growth will outperform their sector or the market average.
[7] Source: Bloomberg, 06/11/2024
[8] Source: Morgan Stanley Earnings Monitor 01/11/2024.
[9] Economic environment where interest rates remain high for a prolonged period.

Completed writing on November 7, 2024.

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

Frankrijk

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

België – Nederland – Luxemburg

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

Zwitserland

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

Italië

Passaggio Centrale 3
20 123 Milano
+39 02 7244 31

Duitsland – Oostenrijk

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

Spanje

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