Candriam Equities L Europe Innovation

Market Overview

Global stock markets started the year in a hesitant way, but mostly ended the first month of the year in green territory. The strong macroeconomic numbers, especially in the US (jobs report, Q4 GDP) showed once again the resilience of the US economy. Unsurprisingly, the Fed killed - almost entirely - the hope of a first rate cut in March. The ECB also kept interest rates unchanged and reiterated that they remain in "data-dependent" mode. In this environment, growth stocks outperformed value stocks. The conflicts in the Middle East and in Ukraine are far from solved, but did not really impact the market sentiment.

The MSCI Europe ex-UK index delivered positive returns in January. The European Central Bank kept rates on hold at its January meeting and re-iterated its commitment to remain data-dependent. The composite purchasing managers' index (PMI) rose to a preliminary 47.9 in January, its highest level since July. The manufacturing measure beat expectations suggesting that activity bottomed out in the quarter.

Portfolio Highlights

The European equity market continued to slightly advance in January, boosted by the strength of recent activity data.

Stock performance was hindered by the hawkish tone at the Fed's January meeting.

In this context, the fund underperformed the benchmark during the month.

Our key detractors were Tomra, Hexagon, and Genmab. And on the other hand, our key contributors were Dassault Systemes, DSM-Firmenich and Kerry Group.

During the month, we took advantage of the good performance of Finecobank and Hexagon to trim both names.

Outlook

The central banks mood has changed seeing the drop of inflation numbers in the US and the euro zone, the Fed and the ECB are coming closer to the "pivot" (flexibility to inject liquidity via rate cuts). Depending on the macro data and specifically on the evolution of the jobs markets, we could expect around hundred basis points rate cuts from the Fed between Q2 and the end of 2024. Regarding the ECB, the first cut should happen by the summer.

Concerning the 10Y US and German Government yields, in line with the change of policy of the central banks in 2024, we should expect lower long-term interest rates by year-end, which is positive for growth sectors and stocks. The "growth" style has been outperforming the "value" style YTD. We expect the momentum of growth stocks to continue with some volatility.

However, there is still a significant uncertainty regarding the impact of high funding costs on the US, European and Global economies for 2024. The bottom of the economy should be in H2 2024 or H1 2025. Therefore, we favour stable businesses with high revenue visibility.

At the start of this year, we are cautious on Equity Markets. Therefore, we have reduced our cyclical exposure after the strong year-end rally, and we have built a cash position of around 5%. In the next months, we expect some markets drop before the start of a new bull cycle supported by the central banks. European Equities are still significantly under owned by global investors and the level of cash of European investors offers some buffer.