

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.

This marketing communication is provided for information purposes only, it does not constitute an offer to buy or sell financial instruments, nor does it represent an investment recommendation or confirm any kind of transaction, except where expressly agreed. Although Candriam selects carefully the data and sources within this document, errors or omissions cannot be excluded a priori. Candriam cannot be held liable for any direct or indirect losses as a result of the use of this document. The intellectual property rights of Candriam must be respected at all times, contents of this document may not be reproduced without prior written approval.

Warning: Past performance of a given financial instrument or index or an investment service or strategy, or simulations of past performance, or forecasts of future performance does not predict future returns. Gross performances may be impacted by commissions, fees and other expenses. Performances expressed in a currency other than that of the investor's country of residence are subject to exchange rate fluctuations, with a negative or positive impact on gains. If the present document refers to a specific tax treatment, such information depends on the individual situation of each investor and may change.

In respect to money market funds, please be aware that an investment in a fund is different from an investment in deposits and that the investment's principal is capable of fluctuation. The fund does not rely on external support for guaranteeing its liquidity or stabilizing its NAV per unit or share. The risk of loss of the principal is borne by the investor.

Candriam consistently recommends investors to consult via our website www.candriam.com the key information document, prospectus, and all other relevant information prior to investing in one of our funds, including the net asset value ("NAV") of the funds. Investor rights and complaints procedure, are accessible on Candriam's dedicated regulatory webpages <https://www.candriam.com/en/professional/legal-and-disclaimer-candriam/regulatory-information/>. This information is available either in English or in local languages for each country where the fund's marketing is approved. According to the applicable laws and regulations, Candriam may decide to terminate the arrangements made for the marketing of a relevant fund at any time.

Information on sustainability-related aspects: the information on sustainability-related aspects contained in this communication are available on Candriam webpage <https://www.candriam.com/en/professional/market-insights/sfdr/>. The decision to invest in the promoted product should take into account all the characteristics or objectives of the promoted product as described in its prospectus, or in the information documents which are to be disclosed to investors in accordance with the applicable law.

Notice to investors in Switzerland: The information provided herein does not constitute an offer of financial instruments in Switzerland pursuant to the Swiss Financial Services Act ("FinSA") and its implementing ordinance. This is solely an advertisement pursuant to FinSA and its implementing ordinance for financial instruments.

Swiss representative: CACEIS (Switzerland) SA, Route de Signy 35, CH-1260 Nyon. The legal documents as well as the latest annual and semi-annual financial reports, if any, of the investment funds may be obtained free of charge from the Swiss representative.

Swiss paying agent: CACEIS Bank, Paris, succursale de Nyon/Suisse, Route de Signy, 35, CH-1260 Nyon. Place of performance: Route de Signy 35, CH-1260 Nyon. Place of jurisdiction: Route de Signy 35, CH-1260 Nyon.

Specific information for investors in France: the appointed representative and paying agent in France is CACEIS Bank, Luxembourg Branch, sis 1-3, place Valhubert, 75013 Paris, France. The prospectus, the key investor information, the articles of association or as applicable the management rules as well as the annual and semi-annual reports, each in paper form, are made available free of charge at the representative and paying agent in France.

Specific information for investors in Spain: Candriam Sucursal en España has its registered office at C/ Pedro Teixeira, 8, Edif. Iberia Mart I, planta 4, 28020 Madrid and is registered with the Comisión Nacional del Mercado de Valores (CNMV) as an European Economic Area management company with a branch. CNMV: 233