

Candriam Sustainable Equity Europe Small & Mid Caps

Market Overview

Central banks' commitment to bringing inflation under control, despite the inherent risks to the growth outlook, shook both equity and bond markets in August. While the summer brought historical droughts and heatwaves to many parts of the world, the global economy nevertheless continued to cool. All in all, the level of uncertainty about the outlook for the global economy remains high. This uncertainty is especially elevated in Europe, where after six months of war in Ukraine, there is no sign of a ceasefire, and where a recession seems increasingly likely this winter as the region's energy crisis continues to intensify.

The second half of the year looks more challenging. Although EU natural gas inventories reported in August were in line with the 10-year average, thanks to more liquefied natural gas imports and the reactivation of coal-fired power stations, the substantial reduction in gas flows through the Nord Stream 1 pipeline has pushed European energy prices to new highs.

Recession risks remain high, as shown by the weakness of the euro, which dropped to parity with the US dollar, and by the Flash eurozone composite PMI, which dropped further into contraction territory in August.

Portfolio Highlights & Strategy Review

In August, our strategy underperformed its benchmark. Year to date the strategy is outperforming the benchmark.

The main contributors to our performance were the Healthcare, Industrial and Financial sectors while we did suffer from our IT and Materials allocations.

The biggest individual contributors were Tecan (reassuring results), Admiral (resilient results) and Topdanmark.

The biggest individual detractors were BioMérieux (disappointing guidance), Barco (some profit taking) and Spirax.

During the month, we selectively bought some quality names at cheaper prices: Fineco and Thule. We reduced our position in Tomra and Tecan (profit taking).

Fund Outlook

In August, gas supply issues resurfaced, and interest rates increased again. Economic growth in the US and Europe is expected to slow to varying degrees in 2022 and beyond. Obviously, smaller caps could be impacted more by the slowdown as they rely more on growth. We are taking advantage of an increase in market volatility to enhance quality and visibility within our portfolio. Our challenge until the end of the year will be to select the right companies that are able to benefit from an acceleration in their business in a more challenging macroeconomic environment. In Europe, we see a broad range of companies that can offer solutions to numerous megatrends, such as energy transition, new health technologies, digitalisation, and the automation of the economy.

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