

Candriam Sustainable Equity Europe

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

Our performance was negative relative to the MSCI Europe[®] in August.

Our main positive contributors were Healthcare (Tecan) and Consumer Staples (Beiersdorf, Kerry, Reckitt).

Our main detractors were Materials (DSM, Croda) and Energy (allocation effect, underweight).

Main transactions:

- In Consumer Discretionary, we trimmed our position in Inditex after some strong results and the relative outperformance in the recent months.
- In Consumer Staples, we slightly increased Unilever after some strong results, similar to other sector peers.
- In Financials we slightly increased several names on weakness (Fineco, KBC).
- In Healthcare we trimmed some positions for profit taking (Genmab, Sartorius Stedim, bioMérieux), while we increased Sanofi.
- In Industrials we completely sold our position in Teleperformance as our ESG assessment of the company has been downgraded (mostly due to social risks with human capital management issues and lack of disclosure). We slightly increased Schneider Electric.
- In IT we did some profit taking by trimming our holdings in ASML and Dassault Systèmes.
- In Materials we increased our holdings in Air Liquide.
- In Utilities we bought some Veolia.

Fund Outlook

There is increasing evidence of a slowing global economy. Inflation continues to soar to new highs, and while labour markets remain a bright spot, real wage growth (the all-important driver of consumer confidence) remains negative, until we reach peak inflation. Against this weaker growth backdrop, European equities are not fully reflecting the deterioration of economic data. So far this year, much of the equity market decline had been driven by a valuation de-rating. Even if the Q2 earnings season was decent, we think earnings downgrades do pose further risks going forward. 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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