

Candriam Sustainable Equity Circular Economy

Market Overview

January witnessed mixed performances in financial markets, with global equities up by 0.6% in USD terms and government bonds declining by 0.3% in USD hedged terms. The US saw improved growth-inflation dynamics, contrasting with Europe's softer activity. Central banks held policy rates steady, focusing on future rate cuts, amidst ongoing Middle East tensions and a muted response from China after Taiwan elections.

The US equity market, led by growth and cyclical sectors, notably the Magnificent Seven, showed resilience with the S&P 500 hitting a new high. However, the earnings season was lackluster, with a 0.8% growth after 40% of S&P 500 firms reported. Government bond yields fluctuated, with the US 10-year reaching up to 4%. Brent Crude oil prices increased by 6% to \$82 per barrel, while European gas prices and gold fell, reflecting a stronger US dollar.

Market volatility initially cast shadows, especially on renewable energies and clean tech, due to delayed rate cut expectations and fluctuating electricity prices. Despite market challenges, waste management and electrification sectors maintained strong performances, showcasing sectoral resilience amidst broader market uncertainty.

Portfolio Highlights

In this context, the fund returned -1.22%*, underperforming its benchmark by 180bp. The MSCI AC World NR[®] ended the period up by 0.59%**.

Stock selection within Materials was the largest contributor to the excess portfolio return. In terms of absolute performance, our position in ASML (Information Technology) was the standout gainer, rising by 15.1%. The overweight of ASML was the main contributor to the excess portfolio return (36bp). DELL TECHNOLOGIES (Information Technology) as well as CADENCE DESIGN SYS INC (Information Technology) were also solid contributors, impacting positively relative performance by 14bp and 14bp respectively.

Last month, the portfolio's performance mainly detracted because of our allocation in the sectors Materials and Health Care. Last month's worst absolute performers were FIRST SOLAR INC (Information Technology) and BOLIDEN AB (Materials), which returned -14.8% and -14.1% respectively. The overweight of FIRST SOLAR INC was the main detractor from relative performance (-36bp).

In January, we introduced CADENCE DESIGN SYS INC as well as SIEMENS HEALTHINEERS (Health Care) to our portfolio (+2.5% and +1.5% respectively). We also increased the positions of ASML as well as PROCTER & GAMBLE CO/THE (Consumer Staples), from 1.7% to 3.0% and from 1.9% to 2.6% respectively. We sold our positions in ASPEN TECHNOLOGY INC (Information Technology) (-0.8%) and decreased the positions AUTODESK INC (Information Technology) as well as UNILEVER (Consumer Staples), from 2.5% to 1.1% and from 2.8% to 1.7% respectively.

* net of fees in USD terms

** net return in USD terms

Fund Outlook

Equity markets face a complex landscape. The sanguine outlook driven by expectations of monetary easing confronts significant headwinds from inflationary pressures, geopolitical tensions, and labour market tightness. Investors should brace for potential volatility and recalibrate expectations in light of these evolving dynamics. The hope for significant monetary easing may be premature, as core inflation remains stubbornly above targets in many countries, and labour costs continue to exert pressure on inflationary trends.

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