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Fund update

R-co Conviction Equity Value Euro



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With seven trading sessions up or down by more than 1%, European markets were hit in January by a surge in volatility and underlying concerns.

This was driven by the release of FOMC minutes that suggested a more hawkish⁽¹⁾ stance from the Fed; by accelerating inflation in the United States (CPI⁽²⁾: 7.0%⁽³⁾) and in the eurozone (CPI 5.0%⁽³⁾); by the Ukrainian crisis and its geopolitical and energy repercussions; and, to a lesser extent, by the Italian elections. Against this backdrop of nervousness and despite the improvement in the public health situation in developed countries, the Euro Stoxx index with reinvested dividends fell by -3.7%⁽³⁾ in January.

On the bond markets, this caused wide swings in sovereign yields, particularly through the real rate component. The 10-year US yield and Bund⁽⁴⁾ rose, respectively, by 26 basis points (bp) and 19 bp, with the Bund even moving back into positive territory for the first time since May 2019⁽³⁾. Real US and German yields rose by 31 bp and 11 bp, triggering the most aggressive sector rotation since 2003, with the Euro Stoxx Total Market Value outperforming the market by 7.0% on the month, and its Growth equivalent (the Euro Stoxx Total Market Growth) by 12.7%⁽³⁾. Although they rose sharply, real US and German yields merely returned to their respective levels of June 2020 and June 2021.

Since February 2022, inflation data on both sides of the Atlantic has continued to surprise on the upside (with the US CPI at 7.3% and the eurozone CPI at 5.1%⁽³⁾). Against a backdrop of economic growth and solid employment, an accelerated tightening of monetary policies is looming as the year begins, as confirmed by recent statements by the ECB and the Fed.

This has some investors spooked, as continued normalisation of real rates may continue to impact Growth stocks. However, when combined with an economy that should remain robust, this configuration is making us optimistic on the future performance of Value sectors, despite their recent outperformance.

The fund rode this style rotation to a 0.7% gain in January, outperforming its benchmark index by 4.5%⁽³⁾. Half of this outperformance was due to the fund's overweighting of cyclical and financials, and half to favourable stock-picking.

(1) A bias in favour of less accommodative monetary policy to combat inflation.

(2) Consumer Price Index.

(3) Source: Bloomberg, 31 January 2022.

(4) The 10-year German yield.

The figures mentioned cover past months. Past performances are not a reliable indicator of future performances and are not constant over time.

Performances are calculated in euros net of reinvested dividends. The above information does not constitute investment advice or a recommendation to invest.



The Value bias had the biggest allocation effect, as the fund got a boost from the outperformance by the two sectors to which it is most heavily exposed – energy and banks, which ended in January at the top of the Euro Stoxx, at, respectively, +7.1% and +6%⁽⁵⁾. Meanwhile, the fund's marked underweighting of technology, the worst loser on the month (-12.2%⁽⁵⁾), also contributed to the allocation effect. Regarding stock-picking, banks (CaixaBank, Intesa Sanpaolo and Société Générale) and integrated oil companies (TotalEnergies and ENI) were once again one of the main drivers of outperformance.

Among the main moves, we added to our exposure to TotalEnergies in light of tensions in Ukraine and natural gas price trends. We also chose to reposition the fund on a potential upturn in Chinese economy, particularly through ArcelorMittal and Daimler, as we were encouraged by signs of improvement on auto production lines. We did so using the proceeds from the sale of the Daimler Truck shares that we received from the December 2021 spin-off⁽⁶⁾. We also continued to raise our exposure to Alstom, as its *momentum* in new contracts makes us confident in its ability to generate cashflow, which is somehow still the market's main concern.

Finally, concerning the defensive pillar, we ultimately unwound our position in EDF. The recent decision to build five new nuclear power plans, the French state's capping of prices, and talk of possibly shoring up the balance sheet, has left us without the visibility we need on both the operating or financial levels, to stick with this conviction. We reallocated some of the proceeds to other commodity stocks (Veolia in particular), as well as to telecoms through Orange. In addition to their historic discount (45% vs. other defensive sectors⁽⁷⁾), telecoms offer attractive catalysts, particularly with the end of the capex⁽⁸⁾ cycle, which should boost their free cash flow; price *momentum*, which should boost revenues; possible restructuring with interest from private equity funds (see: Vodafone), and, lastly, sector consolidation.

Performance	Since the beginning of 2022	2021	2020	2019	2018	2017	Since inception	1 year volatility
R-co Conviction Equity Value Euro C EUR	0.73%	26.30%	-8.85%	17.64%	-18.01%	14.74%	115.44%	13.94%
Euro Stoxx [®] NR ⁽¹⁾	-3.74%	22.67%	0.25%	26.11%	-12.72%	12.55%	103.17%	11.69%

(1) Benchmark.

Sources: Rothschild & Co Asset Management Europe, 31/01/2022.



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(5) Source: Bloomberg, 31/01/2022.

(6) A spin-off consists in creating a new entity from one of a group's branches of activity.

(7) Source: JP Morgan, 28 January 2022.

(8) Capital expenditure.

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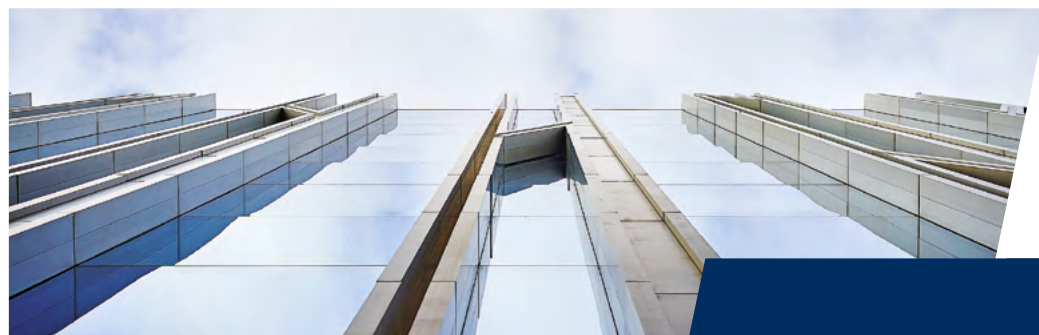
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