

June 2022 | Rothschild & Co Asset Management Europe



Fund update

R-co Conviction Equity Value Euro



Anthony Bailly
European Equities
Fund Manager



Vincent Iméneuraët
European Equities
Fund Manager

Fund positioning & outlook

Although May was marked by a persistent climate of uncertainty, financial markets showed resilience, with a performance of +0.4% for the Eurostoxx dividends reinvested⁽¹⁾. As for uncertainties, the stalemate in Ukraine and the continuation of the “zero-covid” policy in China have extended the difficulties in supply chains, the tensions in the crucial global markets of energy and agricultural commodities such as wheat, and the sluggishness in household confidence.

As a result of these uncertainties, inflation remains the primary concern of central banks and investors. It appears to have peaked in the United States, with the first month of decline (8.3% in April compared with 8.5% in March) since November 2020 and has broken new records in Europe (9% for the United Kingdom in April and 8.1% in the Eurozone for the month of May)⁽¹⁾. In this context, monetary tightening was confirmed on both sides of the Atlantic: the Fed raised rates by 50 basis points (bps) and confirmed the reduction of the balance sheet at a monthly rate of USD 95 billion, leaving the door open to further rate hikes of 50 bps until there is “clear and convincing evidence” of a decline in inflation. In Europe, faced with the urgency of the situation, the BoE proceeded with a fourth consecutive rate hike, while the ECB gave a belligerent speech, auguring a probable acceleration of the rate hike schedule, which should begin in July. As Jerome Powell himself admits, in seeking to control inflation without weighing too heavily on economic growth, central banks are on a narrow ridge, where every macroeconomic data point is carefully scrutinised.

In this regard and on the economic activity side, even if some data are marking time (US housing market for example), the robustness of employment and consumption allow us to remain optimistic. In the United States, retail sales remained strong (+0.9% in April and upward revisions of March's figures to +1.4%), as did job creation (428,000 jobs created in May and an unemployment rate of 3.6%)⁽²⁾. The ISM manufacturing and non-manufacturing indices were admittedly below expectations, but at 55.4 and 57.1, they are still largely in expansionary territory. In the Eurozone, the situation is similar, with the unemployment rate remaining at its lowest level, and PMIs holding up at high levels (composite PMI at 54.9 compared with 55.8 in April)⁽²⁾.

The European Commission has lowered its GDP forecasts (to 2.7% for 2022 and 2.3% for 2023 from 4% and 2.7% previously)⁽²⁾ ultimately simply joined a consensus that has only marginally changed since March. In China, the notable drop in some indicators (industrial production at -2.9%, retail sales at -11.1%)⁽¹⁾ is the expected consequence of the restrictive measures put in place over the last two months.

With the re-opening phase, the outlook is improving, helped also by the announcement of various support measures for the economy, which was corroborated by the rebound of the PMI at the end of the month (48.4 against 42.7 for the composite PMI)⁽¹⁾.

On the microeconomic front, the excellent reporting season of the first quarter was confirmed: sales and earnings per share (EPS) came in 4.8% and 10.2% respectively above expectations (90% of companies reporting), leading to further upward revisions of 2022 EPS for the Stoxx Europe 600 index (now expected to be +14.0% compared to +11.9% in April)⁽³⁾.

(1) Source: Bloomberg, 31/05/2022.

(2) Source: Bloomberg, May 2022 figures.

(3) Source: Exane, 31/05/2022.

The figures quoted relate to the past months. Past performance is not a reliable indicator of future performance and is not constant over time.

Performance calculated in Euros and net of dividends reinvested. The information contained in this document does not constitute investment advice, tax advice, a recommendation or investment advice from Rothschild & Co Asset Management Europe.



In this context, the Eurostoxx reinvested dividends rose by +0.4% over the month, helped by the strong outperformance of energy (+11.5%), but also by the recovery of certain cyclical and financial sectors (Retail: +8.3%; Banks: +6.4%; Leisure & Travel: +4.5%)⁽⁴⁾. Conversely, Media (-6.1%) and Consumer Staples suffered, in line with several profit warnings⁽⁵⁾ cross the Atlantic (Walmart, Target, Snap, etc.).

In this complex environment, Value outperformed, rising by +3.0%, while Growth declined by 2.1%, bringing the outperformance of Value over Growth to 15.1% since the beginning of the year. The rotation towards Value therefore continued in Europe in May, in a context of the paradigm shift in interest rates that we mentioned the previous month. Moreover, it was the rise in real rates (+100 bps on German real rates in May) that accelerated this rotation.

We are convinced that we are approaching peak inflation and that central banks, despite their resolutely hawkish⁽⁶⁾ rhetoric, are keeping a close eye on the robustness of economies. Inflation expectations are likely to fall over the next few months, allowing real rates to continue their upward march.

The fund is positioned to fully benefit from the continued rise in interest rates through its large overweight in the banking sector (>10.5%): the sensitivity of interest margins to rising interest rates should lead to positive revisions in the sector as we move through the year. Our constructive view of the economy also leads us to maintain our cyclical bias (Auto, Leisure & Travel, Construction between +3% and +4% overweight). Despite a good performance over the month, these sectors are still largely undervalued compared to growth sectors. Finally, our portfolio remains relatively protected in the event of an adverse scenario through our overweight positions in the Telecoms (around 3.5%) and Energy (around 5%) sectors, as well as stocks with a defensive profile (Carrefour, Danone, Sanofi, etc.).

Main transactions & contributions

During the month of May, the fund rose by +4.6% (performance of -5.0 % year to date), outperforming its benchmark index⁽⁷⁾ by +4.1% and bringing its year-to-date outperformance⁽⁸⁾ to +5.1%. The outperformance observed during the month of May is explained as much by the allocation effect as by the selection effect. In terms of the allocation effect, the fund benefited from the performance of its two main overexposures, namely the banking sector, which benefited from rising interest rates, and the energy sector, which benefited from persistent tensions in the oil market and the prospect of further sanctions by the European Union. However, stock selection was not outdone within these two sectors, with Unicredit (+22%), Société Générale (+15%) and TotalEnergies (+17%) each significantly outperforming their peers. Also noteworthy is the strong performance of Alstom (+20%), helped by a reassuring cash generation report and new contracts. IAG was a disappointment, but despite a decent report, it struggled to reassure on its ability to pay down debt.

Believing at the beginning of the month that new European sanctions on energy were almost inevitable (reinforcing supply/demand imbalances over the next few months), we increased our overexposure to the energy sector from +4 to +5%, notably via ENI, whose performance remains below that of other European integrated companies.

We also made an arbitrage within the automotive sector in view of the signs of improvement on the production lines, particularly with regard to semiconductors. Considering that automotive markets have now bottomed out and will be further helped by the reopening of China and the normalisation of supplies by the end of the year, we wanted to increase our exposure to rising volumes, which should benefit OEMs, and to the strengthening of the Chinese economy in the second half of the year. As a result, we arbitrated our position in Michelin, whose defensive nature had been favoured throughout the semiconductor crisis, in favour of Faurecia (capital increase to come, but which seemed to us to be partly integrated in the price), and to the benefit of Mercedes, because of its Chinese exposure and a premium strategy which should benefit a stock that is still lowly valued.

We also marginally continued to strengthen our position in Alstom for the reasons mentioned above, as well as BNP, which has lagged its peers since the beginning of the year despite a very low exposure to Russia. These marginal increases were financed by reducing positions whose year-to-date performance had been rather satisfactory (Carrefour, Accor), or whose prospects now seemed less obvious (AB InBev).

Completed on 9 June 2022

(4) Source: Bloomberg, 31/05/2022.

(5) Profit warning occurs when a company advises shareholders and the public that its earnings results will not meet analyst expectations. A company generally issues a profit warning prior to the public announcement of its official earnings results.

(6) Positioning in favour of a less accommodating monetary policy to fight inflation.

(7) Benchmark index: Euro Stoxx ® NR

(8) Source: Rothschild & Co Asset Management Europe, 31/05/2022.

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Performance	Since the beginning of 2022	2021	2020	2019	2018	2017	Since inception	1 year volatility
R-co Conviction Equity Value Euro C EUR	-5,03%	26,30%	-9,85%	17,64%	-18,01%	14,74%	103,12%	20,53%
Euro Stoxx® NR ⁽¹⁾	-10,12%	22,67%	0,25%	26,11%	-12,72%	12,55%	89,70%	16,90%

(1) Benchmark.

Sources: Rothschild & Co Asset Management Europe, 31/05/2022.



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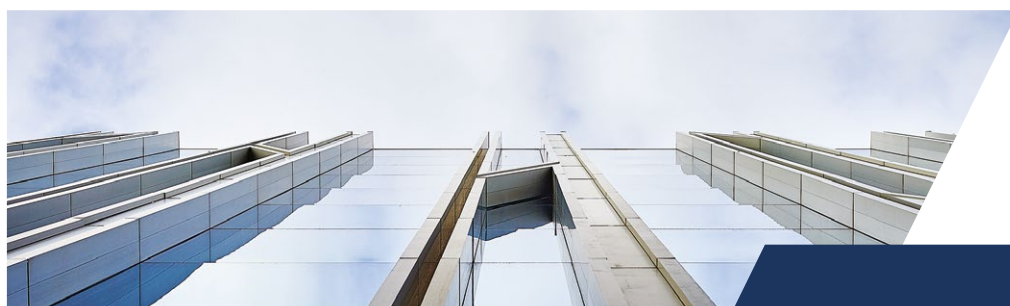
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