ADVERTISING COMMUNICATION

January 2024 | Rothschild & Co Asset Management

Review 2023 & Outlook 2024
R-co Valor & R-co Valor Balanced

Yoann Ignatiew
Co-Fund Manager of R-co Valor and R-co Valor Balanced

Charles-Edouard Bilbault
Co-Fund Manager of R-co Valor

Emmanuel Petit
Co-Fund Manager of R-co Valor Balanced and Head of fixed-income

"2023: Everyone has a plan until they get punched in the mouth"

Mike Tyson

In light of the sustained hike in key rates, the market broadly expected 2023 to be a recession year. Yet, the current environment seems quite far from such scenario.

As expected, central banks stuck to their hawkish policies with the goal of fighting inflation. Interest rates were hiked steeply on both sides of the Atlantic, by 100 basis points (bps) by the Fed, and by 200 bps by the ECB. These policies were successful in slowing inflation markedly during the year. However, as the year draws to a close, there is still some way to go in the case of core inflation[(1)] (at 4% in the US and 3.6% in Europe)[(2)]. These last 12 months have featured a series of factors that were rather far off the scenarios expected by consensus in late 2022. First of all, economies worldwide were surprisingly resilient. Indeed, global growth is projected at 3% by the IMF, including 0.7% in the Eurozone and 2.1% in the US[(3)]. Companies benefited from strong pricing power[(4)], while consumers, particularly in the US, have been the main driver of growth in the country. Another surprise has been the impressive performance of both equity and bond markets. Indices have brushed up against their all-time highs, driven by the massive outperformance of tech companies. Share prices of US "tech megacaps"[(5)] have soared, benefitting from sound inflows, as investors have shifted increasingly to companies offering solid earnings. Meanwhile, cost-cutting in 2022 and more stringent budget discipline contributed to margin improvement . The sector has also been driven by the theme of artificial intelligence, with the market rewarding, sometimes exuberantly, companies positioned on this trend. Lastly, China brought its share of disappointment, as the end of its zero-Covid policy did not produce a marked rebound in consumer spending, as it occurred in other countries. Chinese household confidence was hit by high unemployment, particularly among young people, thus undermining domestic consumption. Meanwhile, exports took a hit from lacklustre international demand, and the real-estate crisis, punctuated by a series of developers on the verge of bankruptcy, proved to be a large obstacle to China's economic activity. The government has nonetheless provided support to growth, via recovery plans and credit stimulus policies. Against this backdrop, some sectors did fare well, such as education and travel.

What we did in 2023 with R-co Valor

We reduced our risk exposure throughout the year, lowering our equity allocation from 83% in January to as low as 67%[(6)], and reducing our exposure to cyclical stocks. This translated into sales and subsequently lower weightings of financial, industrial and diversified mining stocks. We also took some profits on selected tech stocks, particularly late in the year. In parallel, we reinforced our Chinese stock holdings to prevent the dilution of our Chinese exposure. We also made some opportunistic purchases of stocks that had excessively de-rated, as well as some defensive stocks, such as goldmines. In addition to equity investments, we overweighted

(1) Excluding food and energy.
(2) Source : Bloomberg, December 2023
(3) Source : IMF, December 2023
(4) A company's ability to raise its prices while holding onto its customers.
(5) The largest caps among tech stocks.
(6) Source: Rothschild & Co Asset Management, 29/12/2023.

money-market investments. We are positioned in particular on French government bonds maturing in less than one year. The yield close to 3.7%[7], and their high liquidity, makes them an optimal holding positon .

The fund gained 13% in 2023[8]. Unsurprisingly, exposure to the tech sector was the main contributor during the period, led by stocks such as Uber, Meta and Mercado Libre (the first two posting performances well in excess of 100% over the period[7]). Diversified mining companies also stood out alongside industrial stocks with strong pricing power. There was nonetheless some dispersion among these, with ABB and Airbus faring very well and Alstom and Honeywell disappointing.

What we did in 2023 with R-co Valor Balanced

Similarly to R-co Valor, we reduced our equity exposure throughout the year, to 34% by the end of December.

The fund's bond allocation was raised gradually from 49% at the start of the year to 55% currently[8]. We took advantage of some opportunities, particularly in investment grade issues[9]. This lowered our high yield[10] / non-rated allocation from 18% to 12.8% of the bond allocation by year-end[8]. The maturity wall projected for 2025-2026 is worth monitoring in 2024. Some companies will have to refinance their debt, perhaps at much higher rates. With this in mind, we have set up some hedges within the riskiest portion of the portfolio. With the monetary tightening cycle coming to an end, the portfolio's sensitivity was gradually raised during the year. To do so while avoiding raising our credit risk, we bought 10- and 20-year Bunds. We reduced these holdings late in the year in reaction to the steep drop in interest rates.

The fund gained 11.3% in 2023[8]. The bond allocation contributed about 45% to the year's performance[8]. Our exposure to the asset class played its volatility-cushioning role in full, but also served as a driver of performance itself. As for market performance, euro investment grade achieved its best performance in 10 years, at +8.2%[7]. In the riskier allocation, high yield performed especially well in 2023, with relatively tight spreads[11], a symptom of investors' confidence in a soft landing scenario.

In reaction to the shift in the tone of the US Federal Reserve, opening the door to possible rate cuts as soon as the first half of next year, market participants overwhelmingly endorsed the Goldilocks scenario[12].

Consensus is projecting an economic slowdown for 2024, though excluding a recession, with central banks' lowering their rates massively over the first half of the year. Under this scenario, corporate earnings' growth is projected at about +7.5% in Europe, and +12.5% in the US[13]. This win-win scenario looks a bit overdone. Core inflation is down but still at 4%[14]. The Fed, which is still set on its 2% target, would risk undermining its credibility if it acted too early. In a structurally more inflationary world, we expect inflation to return to 3%, with wage inflation remaining a major challenge. In Europe, the starting point is slightly different, as economic activity is weaker than in the US, although key rates are also lower (4% vs 5.25%)[15]. The

R-co Valor

R-co Valor is a flexible, discretionary fund launched in 1994, with no style bias and globally exposed

Main risks: Risk of capital loss, Risk associated with discretio- nary management, Market risk, Credit risk, Interest rate risk, Foreign exchange risk, Counterparty risk, Risk associated with the use of derivatives. This list is not exhaustive. Please refer to the "Risk profile" section of the Fund's prospectus.

R-co Valor Balanced

As a diversified fund launched in 2018, R-co Valor Balanced replicates half of R-co Valor's equity exposure while also investing in euro-denominated bonds, mainly rated Investment Grade.

Main risks: Risk of capital loss, Risk associated with discretionary management, Market risk, Credit risk, Interest rate risk, Foreign exchange risk, Counterparty risk, Risk associated with the use of derivatives. This list is not exhaustive. Please refer to the "Risk profile" section of the Fund's prospectus.

(7) Source: Bloomberg, 29/12/2023.
(8) Source: Rothschild & Co Asset Management, 30 November 2023.
(9) Bonds issued by companies or governments rated between AAA and BBB- by Standard & Poor's.
(10) High yield bonds are issued by companies or governments having a high credit risk. They are rated below BBB- by Standard & Poor's.
(11) Difference in yield between a corporate bond and a government bond of equivalent maturity regarded as "risk-free".
(12) Situation in which the markets are neither overheated or in a recession.
(13) Source: Consensus, December 2023.
(14) Source: U.S. Bureau of Labor Statistics, December 2023.
(15) Source : ECB, Fed, December 2023

prevailing glumness could prompt the ECB to cut rates before the Fed. Historically, this has seldom been the case – only once in the past ten easing cycles. At their latest meetings, the ECB and the Bank of England also took note of an improvement on the inflation front, while striking a more moderate tone on a possible rate cut in the near future.

Market sentiment looks excessively optimistic, with investors’ betting on massive rate cuts and a soft landing. These look hard to reconcile, and we believe that if the central banks opt for an excessively accommodative policy, it will be in reaction to a deep economic recession. With this in mind, we continue to take some profits as markets rise, with no desire to increase our risk exposure entering 2024.

However, nor are we adhering to a worst-case scenario. Public spending was a big source of support last year and will be a driver of growth in 2024. In the US, for example, the funds released under the various rescue plans are far from depleted, as just 350 billion dollars out of 1800 billion dollars approved (i.e., about 20%) have been deployed. It is hard to say when, or if, these funds will be disbursed, but they can reasonably be expected to support economic growth. Moreover, based on a more “market-oriented” approach, inflows could provide support to equities. In the US, record amounts flowed into money-market funds in 2023, which gathered more than 1000 billion dollars(16). Over the same period, only 125 billion dollars(16) flowed into US equities, whereas the Nasdaq 100 hit an all-time high and the S&P 500 came close to doing so.

China, the big loser of 2023, could make a comeback in the next few months. Signs of recovery are beginning to emerge, including an upturn in retail sales, a Caixin PMI(17) in expansion territory, and a slower decline of real-estate prices. Moreover, the Chinese Communist Party looks more on board than ever in achieving sustained economic growth via a series of stimulus measures. Beijing seems to have begun to defuse the risks in the real-estate sector by addressing the financing needs of real-estate companies to allow them to complete current projects. Lastly, on the geopolitical front, November featured a historic meeting between the US and Chinese presidents, Joe Biden and Xi Jinping. The meeting was held in the US and was interpreted as a sign of renewed dialogue between the two countries. This has also shown up in the resumption in flights between the two countries and the signing of new trade deals. Even so, these factors still have not won over foreign investors or the Chinese population.

Lastly, 2024 will be an election year in the US, of course, but also in India, the UK and Mexico. In fact, almost two thirds of the Democratic world will be voting in 2024. Election years are generally periods in which governments try to avoid austerity measures and where central banks tend to take a neutral stance in the run-up to election cycles.

Completed writing on 29 December 2023

(16) Source: Bloomberg, December 2023.
(17) Purchasing managers index, an indicator reflecting their confidence in the manufacturing or services. Above 50, it points to an expansion in activity; below 50, to a contraction.

ISIN : FR0011253624

Performance	2023	2022	2021	2020	2019	5 years	1 year volatility
R-co Valor C EUR	13.0%	-8.1%	12.7%	6.7%	28.6%	44.0%	13.3%

Source: Rothschild & Co Asset Management, 29/12/2023.
The figures quoted relate to previous years. Past performance is not a reliable indicator of future performance and is not constant over time.
They take into account all fund-related costs and expenses (e.g. management fees) but do not take into account fees charged to the client (e.g. issuance costs, deposit fees).

Recommended investment period: 5 years

SRI risk 4/7. The synthetic risk indicator shows the level of risk of this product compared to others. It indicates the likelihood of this product incurring losses in the event of market movements or our inability to pay you. We have classified this product in risk class 4 out of 7, which is a medium risk class and mainly reflects a discretionary management policy on equity markets and fixed income products. This means that the potential losses from the future performance of the product are at a medium level and, should the markets deteriorate, it is possible that our ability to pay you will be affected. The risk indicator assumes that you hold the product for 5 years, otherwise the actual risk may be very different and you may get less in return.

Any investment is always subject to risk. Before investing, each investor must ensure the jurisdictions in which the UCI is registered. The KIID, the full prospectus as well as the net asset value (NAV)/net inventory value (NIV) are available on our website: am.eu.rothschildandco.com

ISIN : FR0013367265

Performance	2023	2022	2021	2020	2019	Since inception[1]	1 year volatility
R-co Valor Balanced C EUR	11.3%	-11.8%	6.7%	5.0%	15.6%	22.0%	7.6%

(1) Inception date: 24/10/2018.
Source: Rothschild & Co Asset Management, 29/12/2023.
The figures quoted relate to previous years. Past performance is not a reliable indicator of future performance and is not constant over time.
They take into account all fund-related costs and expenses (e.g. management fees) but do not take into account fees charged to the client (e.g. issuance costs, deposit fees).

Durée de placement recommandée : 3-5 ans

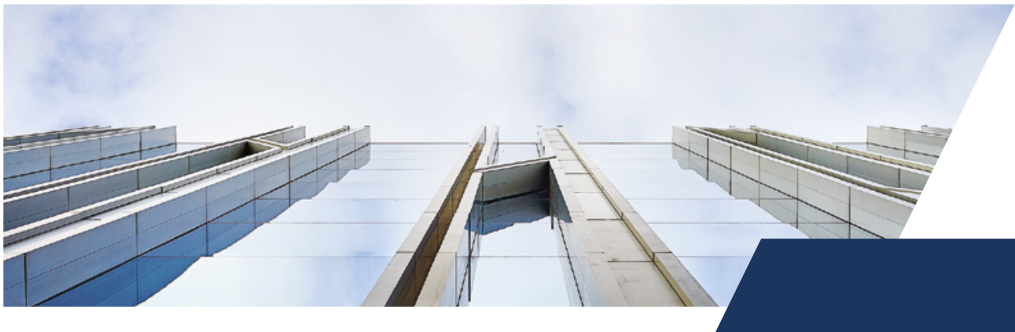
SRI risk 3/7. The synthetic risk indicator shows the level of risk of this product compared to others. It indicates the likelihood of this product incurring losses in the event of market movements or our inability to pay you. We have classified this product in risk class 3 out of 7, which is a low to medium risk class and mainly reflects a discretionary management policy on equity markets and fixed income products. This means that the potential losses from the future performance of the product are low to medium and, should the markets deteriorate, it is possible that our ability to pay you will be affected. The risk indicator assumes that you hold the product for 5 years, otherwise the actual risk may be very different and you may get less in return.

Any investment is always subject to risk. Before investing, each investor must ensure the jurisdictions in which the UCI is registered. The KIID, the full prospectus as well as the net asset value (NAV)/net inventory value (NIV) are available on our website: am.eu.rothschildandco.com

Disclaimer

About the Asset Management's division of Rothschild & Co

As the specialised asset management division of the Rothschild & Co group, we offer personalised asset management services to a broad client base of institutional investors, financial intermediaries and distributors. Our development is focused on a range of open-ended funds, marketed under five strong brands: Conviction, Valor, Thematic, 4Change and OPAL, leveraging our long-term expertise in active management with conviction as well as in delegated management. Based in Paris and established in 9 European countries, we manage more than 27 billion euros and employ nearly 160 people. More information at: www.am.eu.rothschildandco.com



Follow us on
LinkedIn

For further information
am.eu.rothschildandco.com

Rothschild & Co
Asset Management