MARKETING COMMUNICATION

For professional clients only
January 2024
Monthly Perspectives
AXA IM Equity

Sustainable Europe strategy
End of year, end of rate hike(?), general optimism

- Stock selection: Ashtead, Prysmian, Publicis - Merck, BP, Nesté
- Sector allocation: Negative: OW Communication services
- Holdings In/Out: -

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What's happening?

Following on from the previous month, equity markets posted further gains in December, bringing the year to a close in fine style. Several stock market indices came close to or exceeded their all-time highs. The main reason for this upward movement is the feeling that the rate hike is coming to an end, and that we can now look forward to a rate cut in the more or less near future. Macroeconomic data showed continued disinflation in the USA, thanks to lower energy prices, and an easing in the job market. In Europe, indicators point to economic contraction, fuelling hopes of a rate cut in 2024, even though central banks have kept their key interest rates unchanged. This stock market environment has favored interest-rate-sensitive sectors such as real estate, and cyclical sectors such as capital goods, materials, construction and chemicals. Conversely, defensive sectors such as telecommunications, utilities and consumer staples were penalized. The energy sector also underperformed, despite growing tensions in the Red Sea and efforts by OPEC+ countries to reduce production.

Portfolio positioning and performance

AWF Framlington Sustainable Europe outperformed its benchmark over the month. Good stock selection offset the negative impact of sector and currency allocation. Unsurprisingly, cyclical stocks made the strongest positive contribution. On the one hand, industrial cyclicals such as Ashtead, Prysmian, Saint-Gobain and Schneider, which are well exposed to the major growth themes, and on the other, financial cyclicals such as BNP Paribas and the advertising sector with Publicis, which happily broke through its highs for the year, as investors were reassured by the profile of the new CFO, who boasts long and solid operational experience within the Group. News specific to some of these stocks also explains December's gains. Ashtead's management was extremely optimistic about the outlook for the US construction market, announcing that the Group had won 30% of the 500 megaprojects (>$400m) that had just been or were about to be launched. Prysmian announced a new organizational structure, with the appointment of new directors with a strong track record of success within the Group. The market was also quick to digest the slight downward revision of the ASML group's 2024 growth targets, due to the strong demand for semiconductors expected from the following year onwards, particularly for the most sophisticated architectures. Conversely, Merck's share price declined following the failure of one of its most promising compounds in the multiple sclerosis field to reach Phase III clinical trials, whereas Phase II had suggested that its efficacy would be much better than that of existing compounds. Energy stocks (BP, Neste) declined despite OPEC+'s announcement of a further production cut.

There was very little movement during the month, apart from profit-taking on Banco Santander and ASML, and a continued underweighting of luxury goods and energy, with slight reductions in our weightings in LVMH and BP. At the same time, we have increased our exposure to Saint-Gobain, Ashtead and Infineon.

Outlook

Over the next few weeks, after the recent rebound in equity markets and a fall in long-term interest rates, which are already anticipating a substantial reduction in central bank interest rates, investors may well adopt a wait-and-see attitude until the first annual results are published. In addition to giving an indication of how the end of 2023 is shaping up, the latter should, as every year, enable companies to share their outlook for the year.

Even if growth slows in 2024, equity markets could be buoyed by strong shareholder returns and valuations still well below long-term averages. Moreover, central banks are likely to begin a series of rate cuts over the course of the year, which should limit the scale and duration of a potential recession that has already been postponed several times in recent quarters.

Once again, we believe it is important to maintain good diversification. We remain faithful to our investment strategy, focusing on companies combining the ability to adjust prices, visibility and/or growth prospects through exposure to long-term themes, and a solid financial structure.

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