

AMUNDI FUNDS EUROPEAN EQUITY INCOME ESG

Monthly
Portfolio
Update

30/04/2024

Meet the Team



Dieter Beil

Senior Portfolio Manager

Market Review

European equity markets gave back some of their year to date performance in April, with the MSCI Europe index losing -0.9%. The underperformance was driven by the more cyclical sectors such as information technology and consumer discretionary, while energy, materials and healthcare performed well.

Once again this month, investors kept a close eye on economic data and central bank action. This has been leading the market sentiment in Europe and the United States, against a backdrop of continuing geopolitical tension. These two regions of the world have shown a certain dichotomy in terms of economic data and central bank action. On the US economic front, the data showed more resilient growth and higher inflation than expected, as a result, the market felt that there would not even be two Fed rate cuts in 2024. On the other hand, in Europe, we have seen better economic momentum and PMI data with upward revisions to GDP momentum and, for the time being, the ECB is sticking to a likely cut in June. The risk of inflation remains more closely linked to oil prices due to geopolitical tensions in the Middle East.

From a fundamental perspective, corporate earnings have been less bad than feared. We believe that, given the macroeconomic context, investors have revised their expectations downwards and that there is therefore a greater chance that the results will surprise on the positive side. At the time we are writing these lines 1/3 of companies have reported results, with a net 6% of companies have beaten on earnings and 12% on sales respectively.

Overall, the market environment remains difficult and uncertain to navigate and hence we maintain a balanced approach. With this single stock level volatility likely to continue in the near term, we will maintain our focus on trying to identify good quality business models at more compelling valuations.

Portfolio Review

The Portfolio significantly outperformed its benchmark, the MSCI Europe, in April. In terms of performance contributors, our holding of health technology company Philips was a standout performer. The share price has underperformed over the past months as investors have been worried about a legal case in the US concerning one of its sleep products. In April, this case was settled for a meaningfully lower amount than expected. Clearly, this was a positive as it removes a key overhang for the share price. Our holding of international banking group HSBC was also a rewarding position as the company issued a positive set of first-quarter earnings results. This, coupled with the announcement of a special dividend was well received by the market. Finally on the positive side, our recent addition of Associated British Foods contributed positively. During the month, the company issued a set of strong results which showed profits coming in ahead of expectations. Management set out encouraging guidance citing price stabilisation within its supply chain which should help support margins going forward – a key pillar of our investment case.

On the negative side, our holding of auto maker Stellantis underperformed in the lead up to results which were generally expected to be weak as the auto sector faces some headwinds as demand normalises post Covid. Our holding of semiconductor company BE Semiconductor lagged as investors appeared to take some profits out of the IT sector in general. Finally, construction and cement company CRH underperformed. While company specific news was light, the share price paused for breath following the recent strong rally.

In terms of portfolio changes, April was quite a muted month. On the sell side, we sold the remaining position in apparel company Hugo Boss. We slightly increased our holding of banking group ABN Amro which we believe has a strong capital return profile with a dividend yield of around 10% with an additional share buyback programme.

Outlook

12 months ago, fears of a deep economic and earnings recession, as well as rising inflation and interest rates, were the main drivers of investor sentiment. Today, economic data is moving in the right direction in Europe, and US economic data is more resilient, despite the recent rise in inflation. Geopolitical tensions remain high, the risk of inflation persists on oil prices and, perhaps most importantly, valuations are high in some areas of the equity market. With bouts of rotation and volatility likely in 2024 as macro newsflow develops, we will continue to use bouts of short-term volatility to buy attractive business models at cheaper valuations with a medium term investment horizon.

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