Richelieu Global Innovation

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Markets

The U.S. stock market rally to 2024 is gaining momentum. Investors debate whether recent economic data will prompt the Federal Reserve to delay the interest rate cuts anticipated by investors. Fourth-quarter earnings beat expectations, as companies effectively manage rising costs and face 22-year high interest rates. Despite economic uncertainty, the S&P 500 reached all-time highs in 2024 thanks to solid economic fundamentals. S&P 500 companies reported year-on-year earnings growth for the second consecutive quarter in Q4. The technology sector reported impressive Q4 earnings growth of 20.8%, driven by the continued rise of artificial intelligence stocks. Of note, the chipmaker essential to AI models, Nvidia, posted staggering Q4 revenue growth of 265%, driving a 60% rise in its share price year-to-date. In summary, the stock market is booming, inflation remains a concern and tech companies are thriving, especially in the AI sector.

On the European side, corporate fundamentals rather than the rise in the German 10-year yield to 2.40% (+23 basis points in February) dictated the relative performance of "growth" versus "value" investment styles. In this reporting period, earnings revisions and investor perception tilted in favor of growth companies. ASML (medium-term prospects for AI), Novo Nordisk (anti-obesity treatment) and LVMH (better-than-expected margins) were the most positive contributors to the European index. At the other end of the index contributor spectrum, results from Sanofi, Roche and BNP were tasteless. As a result, the 2% February rise in the Stoxx Europe 600 index was driven by the growth style (+3.91% vs. -0.19% for value).

In Asia, the CSI 300 index rebounded from its lows (+10%). It should be noted that new bank loans reached a record level thanks to political support (reduction in banks' reserve requirements). That said, China continues to struggle against a slowdown in its real estate market, while trying to restore investor confidence. In Japan, despite the contraction of GDP in Q4, the flagship index is approaching its all-time high.

Fund

The fund underperformed its benchmark, the Bloomberg World Large & Mid Cap Net Return Index. The process innovation pocket outperformed the product innovation pocket this month. The best contributors to February's performance in process innovation were Meta, Amazon, and Nouveau Monde Graphite. The worst contributors were Integral Ad Science, Sony and Double Verify. Top contributors in the area of product innovation were TSMC, Avery Dennison and Hexcel.

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The worst contributors were Lion Electric, Kinaxis and Dassault Systèmes. In terms of geographic allocation, we remain slightly underweight the US and overweight Europe and emerging markets. Nevertheless, we are monitoring the situation closely and are ready to adjust our allocation if necessary.

Looking ahead

Federal Reserve Chairman Jerome Powell has warned that tightening the Fed's monetary policy will cause hardship for Americans. Officials want more confidence that inflation is under control before cutting interest rates. The risk of economic repercussions persists due to prolonged high interest rates. Although a recession is less likely, US GDP growth is expected to decline in 2024. Investors are hoping that the S&P 500's strong performance at the start of the year will continue into March, a historically positive period for the market. Since 1950, when the S&P 500 advances in both January and February, it tends to perform well over the next 12 months.At this stage of earnings releases, profits for European companies in the Stoxx Europe 600 index are expected to come in below expectations, with an estimated 11% year-on-year decline. These are being dragged down by the moribund economies of Germany and the UK, and the lesser dynamism of China, a key market for European companies. The contrast in operating performance is striking compared to the strength of US corporate profits, which are up by 8% (or -1.6% if we restate the 7 magnificence).

That said, the recent improvement in PMI activity indicators in the Eurozone has resulted in an upward revision of cyclical companies' earnings relative to defensives. In other words, while Europe's stock market benefits less from AI-related stocks, it could benefit from any macroeconomic rebound, and from a recovery in China.In fact, the rebound in Chinese equities in February remains timid compared to the decline of recent years. As a result, investors remain sceptical at this stage about possible announcements arising from the annual session of Parliament in early March. Such measures could support economic activity and restore investor confidence. The slight slowdown in services activity in February, despite the Chinese New Year, according to the Caixin PMI services index, is further evidence of the weakness of China's economic rebound.

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