FUND COMMENTARY – OCTOBER 2024
CT EUROPEAN FUND

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Summary

- European equity markets fell in October.
- The fund outperformed its benchmark index on a gross basis.[1]
- Key relative contributors included CRH and Deutsche Telekom.
- Detractors included ASML and LVMH.

Market Background

The fund's benchmark index (the FTSE Europe ex-UK index) fell by 3.4% in euro terms during October and by 1.9% in sterling. Global equity markets were volatile as expectations fluctuated regarding the speed and extent of monetary easing. The VIX index (a measure of market volatility) also reflected uncertainty in the run-up to November's US presidential election. Tensions in the Middle East remained high.

In the US, resilient economic and earnings growth underpinned the market. Labour data showed renewed strength; this eased fears of a hard landing and dampened any lingering hopes of another outsized 50-basis-point (bp) rate cut from the Federal Reserve in November. Inflation fell in September but was slightly higher than anticipated, reinforcing expectations for a standard 25-bp cut. Third-quarter (Q3) GDP growth was behind forecasts but more upbeat economic data, including above-expectation retail sales and strong consumer sentiment, was released in the second half of the month. Stocks sold off in the final days of October after some large-cap technology companies posted mixed quarterly results.

In Europe, equities weakened, largely due to ongoing concerns about the region's economy. The preliminary composite purchasing managers' index for the eurozone remained in contractionary territory, with the already sluggish growth in services slowing and manufacturing output still shrinking. However, some key data, including improving retail sales, was better than expected. Sentiment improved when eurozone headline inflation fell below 2%, in September, for the first time in three years (though the measure rose again in October according to preliminary estimates). The European Central Bank (ECB) followed with a 25-bp rate cut and dovish commentary at its meeting on 17 October. According to Eurostat, eurozone GDP rose by 0.4% on a quarterly basis, beating forecasts, and Germany avoided a recession.

Portugal and the Netherlands were the weakest countries during the month, although the Czech Republic and Norway fared better. In sector terms, technology and real estate fell the most, while communication services and financials led the outperformers.

Performance

On a gross basis, the fund outperformed its benchmark index over the month, boosted by favourable stock selection[1]. Sector and country positioning had a slightly positive effect.

Top relative performers included CRH and Deutsche Telekom.

CRH released resilient quarterly results, which benefited from recent acquisitions and pricing strength in its American materials business.

[1] Past performance does not predict future returns. Please refer to the KIID document found on our website for further information on the fund performance.

Although the new-build residential market remains subdued, the building materials firm is well placed to benefit from non-residential and infrastructure programmes in the US and Europe. Shares in Deutsche Telekom rose ahead of a quarterly results release. The telecoms group aims to enhance efficiency and productivity through artificial intelligence and issued a positive financial forecast. A share buyback programme and dividend increase were also announced. As well as domestic EU exposure, particularly in Germany, the firm has attractive exposure to the US (T-Mobile).

Detractors included ASML (semiconductor equipment manufacturer) and LVMH (luxury goods). ASML released disappointing results and cut its sales forecasts for 2025. Demand for logic and memory chips is recovering more slowly than expected, although demand for AI-related chips is still robust. The company remains unable to sell its most advanced chips to China due to restrictions imposed by the US. LVMH reported weakness in its fashion and leather goods business as demand from China and Japan fell.

Activity

New holdings included Iberdrola, Enel and E.ON; we like the defensive merits of utility companies in an uncertain economic and political environment.

Outlook

Markets have been dominated by inflation and interest rates after the long period of low inflation and rates ended abruptly. Covid restrictions reduced, demand picked up, the war in Ukraine intensified, supply chains came under pressure, and inflation rose sharply.

Central banks underestimated the inflation problem and had to raise interest rates rapidly. Tighter monetary policy is now taking effect and inflation is lower. European economic growth is soft, and manufacturing continues to lag the services sector.

After falls in inflation, the interest rate environment in both Europe and the US looks more benign. The ECB, Bank of England and the Fed have started easing monetary policy and further interest rate cuts are anticipated. A recession can be avoided, although this is a delicate balancing act for central banks. Global geopolitical conflicts and tensions are a concern, as are the possible repercussions for energy prices.

In Germany, Olaf Scholz’s coalition is near to collapse after his decision to fire his finance minister – there is increased pressure to hold elections, with a confidence vote looming. Donald Trump was re-elected in the US election, and it appears increasingly likely that his Republican party will also earn a majority in both the Senate and House of Representatives. This should enable him to push through policy changes, affecting immigration, taxation, energy prices, potential trade tariffs and global conflict. All of these are somewhat unpredictable as we expect Trump to deal-make to cement his legacy.

In European equities, there are reasons to remain optimistic. Earnings have been resilient despite higher interest rates, and over the longer-term, share prices tend to follow earnings. Good companies continue to grow, and we see opportunities in the current market. In managing this fund, our focus is on stock selection. We favour companies that have a competitive advantage and pricing power generated by brands, patented processes, regulatory barriers to entry and strong market positions.

Key Risks

The value of investments can fall as well as rise and investors might not get back the sum originally invested. Where investments are in assets that are denominated in multiple currencies, or currencies other than your own, changes in exchange rates may affect the value of the investments.

The fund may invest in derivatives (complex instruments linked to the rise and fall of the value of other assets) with the aim of reducing risk or minimising the cost of transactions. Such derivative transactions may benefit or negatively affect the performance of the fund. The Manager does not intend that such use of derivatives will affect the overall risk profile of the fund.

The fund typically carries a risk of high volatility due to its portfolio composition or the portfolio management techniques used. This means that the fund’s value is likely to fall and rise more frequently and this could be more pronounced than with other funds.

The risks currently identified as applying to the fund are set out in the "Risk Factors" section of the prospectus.