

Three new themes for international equities

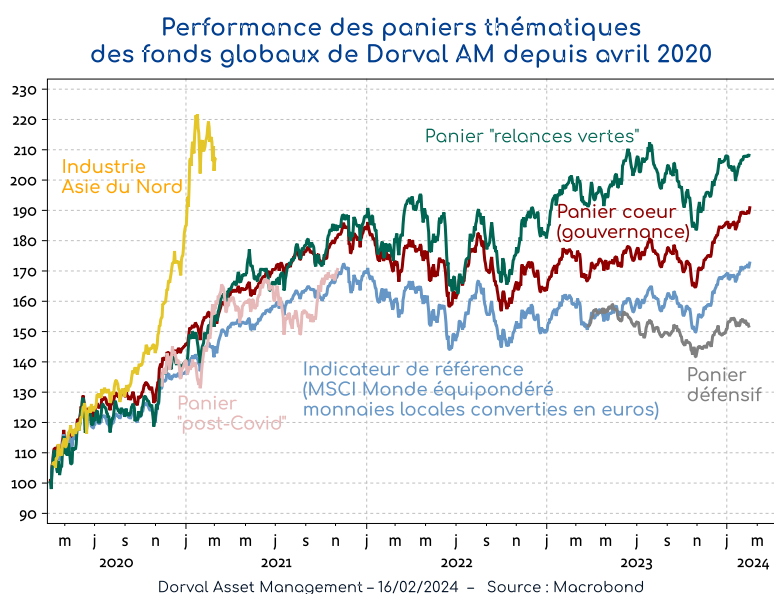
19 February 2024

Dear Clients and Partners,

Global industrial recovery, new forms of business investment and “anti-fragile” companies constitute the new triptych of our thematic baskets for global equities. These baskets are equally weighted and highly diversified, in both geographic and sectoral terms.

Our analysis of the current macroeconomic and financial trend is encouraging us to redeploy our equity investment themes in our global funds. Weakened by political developments (budget restrictions and elections in the US and Europe), the “Green Deal” theme that we have pursued since April 2020 seems less promising. We are therefore taking our profits on this basket, which will have significantly outperformed our benchmark (the MSCI World Equal Weighted) over the investment period (cf. chart 1). Implemented in April 2023 just after the US regional bank crisis, our basket of “ultra-defensive” sectors (health, utilities and consumer staples) is suffering from the sharp decline in the likelihood of global recession. We therefore prefer to move our focus away from this basket, which underperformed our benchmark, the weight of which we had already decreased during the summer of 2023.

Performance of thematic baskets of Dorval AM global funds since April 2020



*North Asian Industry / "Green Deal" basket / Core (governance) basket / Defensive basket / "Post-COVID" basket
Benchmark (MSCI World Equal Weighted, local currencies converted to euro)*

Our core basket of 200 stocks, chosen for the quality of their governance in each sector and region of developed markets, still constitutes the majority of our investment in international equities and it remains unchanged. Our thematic allocation is enriched by three new baskets, which are, as always, equally weighted and highly diversified (no stock can exceed 1% of the portfolio).

A “global industrial recovery” basket. After more than two years of slowdown, the early indicators of a global industrial recovery – indicators that we have been monitoring for several months – seem to be confirmed (cf. chart 2). The inventory run-down dynamics are beginning to slow down, new orders are returning to the United States and the devastating effects of the European energy crisis on certain sectors (chemicals, glass etc.) are beginning to fade. Our core scenario is one of gradual recovery. Our basket will be spread across around twenty companies that are most sensitive to an industrial turnaround, all over the world.

A gradual global industrial recovery seems likely in 2024

PMI taken from surveys of global manufacturing companies

Une reprise industrielle mondiale progressive semble probable en 2024

Indice PMI issu des enquêtes auprès des entreprises manufacturières mondiales



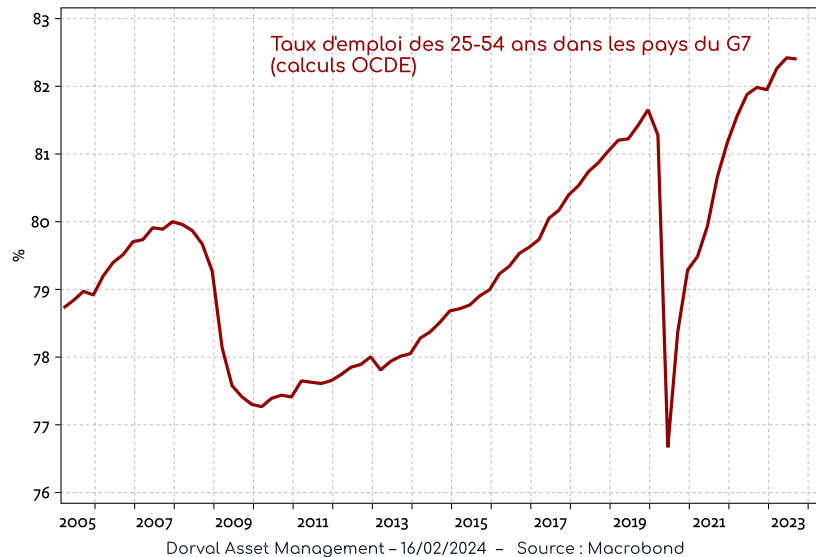
Dorval Asset Management – 16/02/2024 – Source : Macrobond

A “New Capex” basket. In the current situation of near-full employment (cf. chart 3), and therefore recruitment difficulties in many sectors, the economic cycle should be particularly conducive to investment by businesses. The recent improvement in financial conditions and that anticipated for the period 2024–2025 should also contribute to that dynamic. These investments should take mostly non-traditional forms. In addition to spending on the energy transition, the business investment cycle is now expanded to include productivity spending enabled by new technological processes, including AI (artificial intelligence). Our “new capex” basket will be diversified across around 40 to 50 stocks in the businesses benefitting the most from the new cycle of investment in productivity and the energy transition. The method of weighting stocks equally and the scale of the theme, which encompasses not only AI but also energy efficiency and business services (IT, engineering etc.), should contribute to limiting the volatility of this fairly broad thematic basket.



Economic resilience at near-full employment should boost productivity investments

La résilience économique en situation de quasi plein emploi devrait booster les investissements de productivité



Employment rate of 25-54-year-olds in G7 countries (OECD calculations)

A basket of “anti-fragile” companies. For several months, traditionally very defensive sectors have not fulfilled the role expected of them. Their asymmetry is in fact negative: they underperform more in bullish times than they protect in bearish times. With lower inflation, central banks are now in a better position to protect growth in the event of an air pocket, further reducing the likelihood of a severe recession. We therefore prefer to redeploy the defensive part of the portfolio across around 30 stocks with stable growth that have not only shown their resilience, but also their dynamism in the upheavals of recent years. These “anti-fragile” companies are well distributed in our three major investment regions of North America, Europe and developed Asia.

These three baskets will come into force in the week of 19–23 February. They should represent just over 30% of our equity allocation in our various global funds, in addition to our core basket of 200 stocks. In terms of PER, our equity portfolio valuation is expected to be slightly higher than our equal weighted benchmark, but still significantly lower than the traditional cap-weighted MSCI World.

Our exposure rates are as follows:

- Dorval Convictions: The equity exposure rate is 70%.

Dorval Asset Management

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