

## Mirabaud - Equities Eurozone

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### PERFORMANCE UPDATE

Mirabaud Equities Eurozone fund declined by -3.82% in February, whereas the Eurostoxx 50 NR decreased by -4.61%.

The monthly outperformance can be explained by the following elements:

1. Strong underperformance of the Materials sector, in which we are strongly Underweight (bad performance of BASF -8%, CRH -9%, and Air Liquide -5%).
2. Underperformance of the Consumer Staples and the Financial sectors (Unilever -7%, Danone -6% AB Inbev -5%, Deutsche Bank -11%, BBVA -9% and Allianz -6%) in which we are both Underweight.
3. Good stock picking with companies such as Akka Technologies (+11% in February), Accor (+3%), Thales and Maisons du Monde (+1% both) that progressed significantly.

The sector allocation of the fund is characterized by an Underweight in Consumer Staples, and Materials. The Overweight sectors are Information Technology and Consumer Discretionary.

### PORTFOLIO ACTIVITY

Purchase of Airbus to play a step change in profitability, thanks to solid macro conditions, strong traffic growth, along with record order book coverage. Pricing and scale benefits mean the platform has scope to add a further €1-1.5bn of operating profitability in the 2-3years beyond this. This would equate to a further 200 bps of margin at a group level.

Purchase of Danone after a solid publication. Organic growth in 4Q was at 3.7% above market estimate (consensus 3.3%). Recurring margins at 14.4% were +60bps and also beat consensus by 10bp. Danone has guided to double digit EPS growth for FY18 and reiterated its 2020 ambition. These are strong results and we think the discount to the sector should start to close.

Sale of Unicredit, Intesa San Paolo and Erste Bank after the stocks have reached their target price (respectively 18, 3.09 and 40 euros).

### MARKET REVIEW

After a progression of +3.84% in January, the Eurostoxx 50 Net Return declined by -4.61% in February. This negative performance can be explained by some weak macro-economic figures, such as the biggest fall in China PMI since 2010, a sharp rollover in capex indicators and the softness in Eurozone PMIs and IFO. Moreover the US 10-year Sovereign interest rate increase (from 2.71% to 2.86% in February) and a risk of inflation acceleration entailed a massive risk-off attitude, after more than a year without a market correction.

During February, the Industrial and the IT sectors outperformed (Airbus +6%, Safran +1%, Deutsche Post -1%, Nokia +24%, ASML -1%), whereas the Consumer Discretionary and the Material sectors underperformed (Inditex -14%, Vivendi -10%, Volkswagen -9%, CRH -9% and BASF -8%). We stick to our stance of playing a recovery in Europe through more European-biased companies in sectors such as Consumer Discretionary and Information Technology.

### OUTLOOK

After an impressive performance for equity markets in all regions in 2017, we can ask ourselves if this trend can be sustainable in 2018. We consider that this optimism could continue, at least until the end of the first half of the year, with improving macroeconomic data in Eurozone and inflows in equities markets, combined with fewer anti-establishment shifts in European politics. Central banks should also be supportive for equity markets.

In 2018, interest rates will stay low, Q4 results should reassure investors, consumer confidence should continue to be a positive catalyst, and Mergers and Acquisitions activity should remain strong. Moreover equity inflows could become significant.

We favour companies with a European bias which will benefit from a margin recovery, good visibility, significant cash flow generation and a sustainable business model with a strong competitive advantage. Stock picking should be more appreciated than ever in this environment.

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