



Review

European equity markets were modestly positive in July, consolidating after a strong first half. The month was characterised by macro-driven moves and a divergent earnings season, with relative weakness in European data contrasting sharply with ongoing strength from the US. European equities underperformed global peers (particularly in USD terms) as robust US macro data including strong GDP, retail sales and labour market prints lifted the dollar and narrowed year-to-date European outperformance. Bond yields moved higher globally, with Bund yields rising in tandem with US Treasuries, as both the Fed and ECB held rates steady amid still-elevated inflation.

Within Europe, cyclicals outperformed defensives and value outperformed growth, driven by optimism around fiscal spend, a more stable trade outlook, and a supportive interest rate environment. Sector-wise, banks, defence, and travel & leisure names were notable gainers, while chemicals, technology, and consumer staples lagged, weighed down by earnings misses and cautious guidance.

The Q2 earnings season in Europe was mixed, with just over half of reporting companies beating expectations - well below US levels. High-profile disappointments in sectors such as consumer (Nestlé, Adidas) and technology (ASMI, SAP) were punished heavily, reflecting investor concerns over visibility into H2.

Performance across the region diverged with peripheral markets outperforming the core and Nordics, benefiting from stronger local resilience and lower export exposure. Germany and France underperformed on soft PMIs and ongoing pressure on export-heavy sectors.

Fund performance / Activity

The A Accumulation shares rose by 1.16% in July, broadly in line with the peer group, which returned 1.13%, but outperforming the iShares MSCI Europe ex-UK ETF, which gained 0.9% in sterling terms.

Friedrich Vorwerk was the standout performer, with the shares surging following a major contract win for the construction of a large gas pipeline, alongside an upgrade to full-year earnings guidance. The company remains well positioned to benefit from Germany's significant energy infrastructure build-out in the years ahead.

Other notable contributors included Prysmian and Talga. Prysmian delivered strong half-year results ahead of expectations and raised its full-year outlook, driven by continued strength in its Transmission segment. Talga benefitted from improved sentiment toward Western graphite producers after the US imposed 93.5% anti-dumping duties on Chinese imports. While the US is not yet a direct market for Talga, the company was buoyed by news that its proprietary graphite product, Talnode-C, was granted a US patent.

Detractors included Stillfront, Hexatronic, and InPost. Both Stillfront and Hexatronic posted weaker results, with Hexatronic particularly impacted by subdued demand in its Fibre Solutions business and



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Past performance is not a reliable indicator of future results.

pricing pressure from industry overcapacity. InPost declined after a 3.5% stake was placed at a 6% discount, as a key shareholder continued to reduce its holding. Having started an initial position in Novo Nordisk in June, the shares came under pressure following a profit warning ahead of Q2 results. While a modest guidance cut had been anticipated, the scale of the downgrade surprised the market and coincided with the announcement of a new CEO. We believe this likely reflects a strategic reset ahead of leadership transition, rather than a significant deterioration in fundamentals. With sentiment currently fragile, we see the reaction as overdone and continue to view Novo's long-term positioning favourably.

During the month, we started a position in Vulcan Energy, which is developing Europe's largest lithium production site in the Rhine Valley. With low-cost, zero-carbon production from a brine solution, we believe Vulcan offers compelling exposure to the accelerating demand for sustainable and locally-sourced lithium.

Market Outlook

We remain cautiously optimistic on the outlook for European equities. The macro backdrop is mixed and while US economic momentum continues to outpace Europe, improving visibility on trade policy and supportive domestic developments are encouraging. Recent progress on US-EU trade negotiations has reduced near-term uncertainty, providing corporates with a clearer framework to plan around. While Switzerland has been disproportionately affected by recent tariff announcements, there remains potential for further negotiation and adjustment, which could ease pressure on key export sectors.

Domestically, Germany's substantial fiscal package is set to support infrastructure and defence-linked spending for years to come, creating tailwinds for capex-intensive and industrial businesses. At the same time, continued easing from the ECB would offer additional support for markets.

European equity valuations remain attractive, and recent market rotation toward value and cyclical suggests investors are positioning for a more balanced global environment. That said, regional macro data remains patchy and earnings visibility has become more limited.

Against this backdrop, the fund remains focused on companies with strong balance sheets, pricing power, and exposure to structural growth or fiscal-led investment themes.

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Data source (unless otherwise stated): Bloomberg, FE Analytics

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