## Review

The European market rose by about 2.5% in September with cyclical sectors such as basic materials, retail and technology outperforming the more defensive consumer staples and telecoms. Lacklustre economic data held back enthusiasm for European equities whilst concerns over the sustainability of French government finances drove French bond yields higher. Despite this, the CAC regained some of the ground it lost in August, outperforming the overall market.

## Fund performance / Activity

The VT Downing European Unconstrained Income Fund returned 3.71% in September, outperforming the IA Europe ex UK sector, which rose 1.88% and the wider European market.

Vulcan Energy Resources was the largest contributor to returns, rising 37% as it signed several contracts to construct parts of its ambitious lithium brine and geothermal energy project in the Rhine valley. This is an important project for Europe as it looks reduce its reliance on China for critical raw material supplies as reflected in the EU awarding it Strategic Project status under the Critical Raw Materials Act in March.

The share price of one of our largest holdings, doValue, continued its upwards trend, rising another 10% in September taking it to +120% so far this year. There was no specific newsflow for the company during the month, but the high-profile IPO of Klarna in the US, which doValue has exposure to through its recent acquisition of Coeo, may have contributed to investors focusing on doValue’s bright outlook and attractive valuation.

Another of our holdings, Friedrich Vorwerk, having been weak in August, recovered in September +14%. Again, there was little material news but the Germany budget for 2026 is currently being debated by the Bundestag with large increases in energy infrastructure spending likely to occur over the next five years.

On the negative side, Talga Group (-20%) shares continue to be volatile as investors wait for the company to sign more offtake agreements and finalise the financing for their integrated graphite anode project in Sweden.

Inpost shares were also weak in the month (-15%) after revealing in their Q3 results that that they were in dispute with their largest customer in Poland, online marketplace Allegro, over allegations that Allego was breaching the terms of their contract by actively directing customers to other delivery solutions.

# Market Outlook

As we enter Q4, the outlook for the European market remains uncertain with lacklustre GDP forecasts and weak industrial indicators weighing on investor sentiment. Inflation remains around 2% however, and the company management teams we have talked to remain cautiously optimistic about the outlooks now that the tariff dispute with the US appears to be settled for now bringing some certainty. On the other hand, the political situation in France remains unresolved with important questions about the budget making the bond market increasingly nervous. Meanwhile, the equity market continues to move upwards, reaching new highs in the last month.

Notwithstanding the current uncertainty, Germany's fiscal package will continue to support infrastructure and defence-linked spending for the coming years and domestically focused businesses with exposure to these areas are likely to experience increased orders and interest.

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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**2nd October 2025**

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

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