

Review

European equity markets advanced in October, with the iShares MSCI Europe ex-UK UCITS ETF gaining 2.95% and touching new highs for the year. France led the region, as the reappointment of Sébastien Lecornu as prime minister helped calm political nerves, even if longer-term uncertainty remains. Value modestly outperformed Growth, and Cyclical edged ahead of Defensives after recovering from early-month underperformance, as risk sentiment improved. The Q3 earnings season has been broadly encouraging, with an improved tone to guidance and a rising number of companies reaffirming or upgrading outlooks. This helped turn earnings revisions positive across Europe, led by Miners, Tech, Banks, and Luxury.

Fund performance / Activity

The VT Downing European Unconstrained Income Fund rose 3.45% in October, marginally ahead of the IA Europe ex UK sector, which gained 3.27%.

The strongest contributor to performance was Munters, the Swedish industrial group specialising in climate control solutions. The shares surged following strong datacentre order growth, and a significant contract win for its batteries division, which has been under pressure in recent quarters but now appears to be stabilising.

Indra, the Spanish defence leader, also performed well, continuing its strong run as the main beneficiary of several major defence programme awards announced across September and October. While the awards were largely anticipated, the contract values allocated to Indra exceeded market expectations.

The shares of Friedrich Vorwerk rose sharply in the month following a large upgrade to earnings guidance on the back of better than expected revenues and margins. This continued a remarkable run in the shares which are up over 200% ytd.

The largest detractor during the month was doValue, which saw some profit-taking in the absence of fresh newsflow. INWIT also declined on little newsflow.

We initiated new positions in Rovi, the Spanish healthcare company, and Mowi, the Norwegian salmon producer. Rovi offers a compelling mix of defensive cash flows from its established pharmaceutical portfolio and long-term growth from its CDMO operations. The company is expanding its fill-finish and pre-filled syringe capacity in Spain and the US under multi-year contracts with leading global pharma clients, which should drive significant revenue growth as they ramp up. Mowi, the largest and most diversified Norwegian salmon farmer, is well-positioned to benefit from a recovering salmon market following recent oversupply-driven price weakness.

These purchases were funded by sales of Soitec and Bawag. Soitec continues to face a deep inventory correction amid weak market conditions and limited visibility, compounded by the absence of a permanent CEO. We also exited Bawag, where valuations had become full and concerns around potential credit exposure in the US were rising.



Market Outlook

European growth remains subdued, with GDP and other economic indicators continuing to show only modest momentum. However, corporate earnings have generally been resilient, supported by stable demand, cost discipline, and productivity gains. The low interest rate environment continues to underpin activity, and with inflation pressures easing, the ECB appears likely to remain on hold for the foreseeable future.

Germany's substantial fiscal stimulus programme is expected to begin taking effect through 2026, setting the stage for firmer growth and potentially above-trend expansion into 2027. In France, recent reform reversals have helped stabilise the political situation and avert near-term risks of a debt crisis, although structural challenges persist over the longer term.

Encouragingly, early company results suggest business momentum is improving, with management commentary turning more optimistic. This growing confidence, coupled with the prospect of stronger German growth and continued monetary support, provides a constructive backdrop for European equities.

We see a number of compelling investment opportunities across the region, particularly in areas linked to infrastructure, industrial recovery, and energy transition. The fund is positioned to benefit from this gradual recovery, focusing on quality companies well-placed to capture renewed growth momentum in the coming years.

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