

Janus Henderson Horizon European Growth Fund

Q1 2019

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Fund manager names: Simon Rowe

Overview

The first quarter of 2019 saw a sharp rally in equities that erased a major part of the losses seen in the last quarter of 2018. The rally was partly based on hopes that the US and China would resolve their trade dispute and avoid tit-for-tat tariffs. The other major factor was a change in outlook from the US Federal Reserve (Fed), which abandoned its hawkish tone and plans for further hikes in interest rates in 2019. The European Central Bank (ECB) followed suit and confirmed that interest rates would stay at record low levels and promised further support for banks. The changed view on interest rates reflected a more cautious economic outlook (which had been one of the main factors driving the sell-off in the last quarter of 2018).

Another factor helping equities was a less negative view about China. Although Chinese economic statistics confirmed slowing growth and a sharp fall in car sales, this had been anticipated in 2018. The more positive view was founded on a belief that the trade talks with the US would reach a positive result and that government moves to cut taxes and boost infrastructure would stabilise the economy. Despite the equity rally, concerns about the economic outlook remained with clear signals from the bond market: the US yield curve inverted for the first time since 2007 and the 10-year German bond yield moved back into negative territory for the first time since 2016.

Europe saw a series of poor purchasing managers' index (PMI) readings and weak economic statistics, particularly from Germany and Italy, the International Monetary Fund (IMF) revised down growth figures at a European and global level. At the end of the quarter a profit warning from BMW, reflecting the challenges from weakening Chinese demand and rising costs of electrification, encouraged further caution about the industrial cycle and a switch to defensive sectors including pharmaceuticals and staples. By contrast, the oil price continued to rally strongly during the first quarter, with concerns about supply constraints in the Middle East more than offsetting any concerns on the demand side.

Performance and activity

The fund rose 11.9% during the first quarter, slightly lagging its index which gained 12.5%. Several holdings that had sold off sharply in late 2018 bounced on reassuring trading results including Dometic (+33%), Spie (+31%), Michelin (+21.5%) and Grafton (+26%). Other good performers included our oil service holdings SBM (+31%) and Subsea 7 which rallied with the oil price. These gains were slightly offset by our underweight position in staples and pharmaceuticals which hurt relative performance in March. A small number of holdings were also dull and they included Scor, which fell back after the withdrawal of a takeover bid, and Rockwool, which fell on conservative guidance for 2019. In addition, Bayer fell back because of a second negative result from a US jury trial on glyphosate. We are convinced that the stock market hugely overestimates the likely final result of this dispute so we stick with our position. In terms of fund changes, we trimmed holdings in KBC, ABN and sold our holding in Nordea. We also sold positions in Nokian and Fuchs partly to further reduce positions in industrials. We replaced these with a holding in Dutch insurer ASR which is conservatively managed and consolidating specialist insurance niches. We also bought a holding in Infineon after it was sold off in 2018 and topped up a number of other positions.

Outlook

Although many uncertainties remain such as the US/Chinese trade dispute, the debt position of Italy and Brexit, a combination of lower bond yields (with little prospect of a recovery in sight) and more reasonable European equity valuations continues to stimulate a recovery in equities. This is despite the lacklustre European economic outlook, confirmed by statistics from Germany and forecasters who have cut growth forecasts. While the investment backdrop is slightly more supportive for equities, performance at an individual company level remains closely tied to delivery of profit and cash with any shortfalls being punished sharply. So we continue to focus on companies and sectors where we have the highest confidence in terms of resilience, profit growth and management competence.

Source: Janus Henderson Investors, as at 31 March 2019

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For further information on the Luxembourg-domiciled Janus Henderson fund range please contact your local sales office or visit our website: www.janushenderson.com.

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