

# Candriam Sustainable Equity Climate Action

## Market Overview

Equities extended their rally in September, defying weak seasonality as AI optimism and Fed policy drove gains. The Fed cut rates by 25 bps - the first move since December - and signalled further easing. The S&P 500 rose for a fifth straight month, the Nasdaq for a sixth, and the Russell 2000 broke its 2021 highs. Gains were concentrated in large caps, led by Tesla and Google, while Oracle's record AI backlog highlighted ongoing tech strength.

US GDP grew 3.8% annualized, and labour data revisions showed weaker hiring, reinforcing rate-cut expectations. Still, markets faced headwinds from strong economic prints, shutdown risks, and surging gold prices (up by 45% YTD). Credit concerns resurfaced after the collapse of Tricolor Holdings and First Brands but had limited market impact.

In Europe, the Stoxx 600 neared record highs, and the FTSE 100 hit a new peak, while the DAX lagged on valuation worries. The ECB held rates steady, and the euro climbed to a four-year high at \$1.19.

With valuations stretched and speculation rising, October could test investor optimism. Upcoming earnings and macro data will determine whether the Fed can maintain its dovish stance, or if persistent inflation pressures reopen talk of rate hikes.

On this backdrop, S&P Global Clean Energy Index rose 7.57% in September\*\*, extending its August gains.

## Portfolio Highlights & Strategy Review

In September, the fund returned 2.46%\*, underperforming its benchmark by 116bps. The MSCI AC World NR® ended the period up by 3.62%\*\* . Year-to-date, the fund outperforms its benchmark by 24bps, with a positive absolute performance of 18.68%\*.

In terms of absolute performance, our position in **GOLDWIND SCIENCE&TECHNOLOG-H** (Industrials) was the standout gainer, rising by 31.56%. The overweight of **CONTEMPORARY AMPEREX TECHN-A** (Industrials) was the main contributor to the excess portfolio return (52bps). **ASML HOLDING NV** (Information Technology) as well as **DELTA ELECTRONICS INC** (Information Technology) were also strong contributors, contributing 35bps and 34bps respectively. Contemporary Amperex Tech (CATL) outperformed in September as accelerating demand for energy storage solutions and steady EV battery growth kept its factories running at full capacity. Strong overseas orders, particularly from Europe and other key regions, reinforced CATL's leadership in next-generation battery technology. The company's focus on long-term partnerships and operational discipline supported margin resilience and strengthened investor confidence, driving notable share price outperformance over the month.

On the downside, **SYNOPSYS INC** (Information Technology) and **DSM-FIRMENICH AG** (Materials) were among the worst absolute performers, declining 18.8% and 12.8%, respectively. With a negative impact of 36bps, the overweight in **SYNOPSYS INC** was the main detractor from the excess portfolio return. Synopsys underperformed in September after a surprise miss in IP deliveries tied to Intel and China, which raised concerns about near-term growth visibility and execution in its core IP business. The combination of restructuring needs, uncertainty around Intel's foundry ambitions, and integration costs from the Ansys acquisition weighed on sentiment. While the sell-off appeared overdone, given that Synopsys' core EDA and Ansys segments remain solid and supported by long-term AI and advanced node demand, the near-term overhang on earnings expectations led to notable share price underperformance over the month.

In September, we took profits on strong performers such as Microsoft, Iberdrola, Synopsys, and Cadence Design Systems, but added back to Synopsys and Cadence after their sharp pullback, viewing the correction as an attractive opportunity given their solid long-term fundamentals. We also exited STMicroelectronics as the analog cycle recovery remains delayed and initiated a position in Advanced Drainage Systems to increase exposure slightly to the US residential cycle. Additionally, we added to Johnson Controls, Schneider Electric, and Quanta Services to strengthen our positioning in industrial and energy-efficiency themes.

## Fund Outlook

The global clean energy sector remains an exceptionally strong and attractive investment opportunity, supported by powerful structural trends and an accelerating global shift toward decarbonization. Despite ongoing policy volatility and macroeconomic uncertainties, sector fundamentals continue to improve. Notably, the recent passage of the “One Big Beautiful Bill” (OBBB) has provided relief to the market, with outcomes across the clean energy spectrum turning out better than initially feared.

While uncertainties linger, particularly around potential executive orders and regulatory overhangs, the “OBBB” has eased concerns related to subsidy rollbacks and project timelines. Legislative safe-harbour provisions are expected to support backlog stability, and we anticipate positive commentary from most companies regarding growth and visibility. However, pressure remains on smaller developers and distributors, particularly in the residential solar supply chain, where scale and access to financing are becoming increasingly important.

Technological advancements and declining costs continue to enhance the competitiveness of solar, wind, and battery storage, reinforcing their status as some of the most affordable energy sources in many markets. Our strategic emphasis within clean energy remains unchanged: we continue to favour utility-scale solar over residential, especially from a long-term perspective. Residential solar faces ongoing headwinds, including potential adjustments to the Section 25D tax credit and heightened customer acquisition costs, while utility-scale remains more resilient and better positioned to benefit from domestic manufacturing incentives and stable policy support.

We continue to see significant investment opportunities in the need to expand and strengthen global electrical grids. Grids are aging and can barely handle additional load growth. Furthermore, for every dollar invested in renewables, it's roughly estimated that a comparable dollar must be spent on grid transmission and distribution to deliver energy to where it will be consumed.

Energy efficiency remains a core theme, with continued opportunities across industrials, buildings, and data centres. As companies and governments pursue decarbonization, demand for low-carbon technologies and cost-saving solutions remains robust.

Rather than being solely driven by policymakers, climate action is also supported by economic rationale. Moreover, the forecasted once-in-a-decade increase in power demand, in part driven by the proliferation of AI, necessitates additional energy development and grid investments, providing a further tailwind to the thematic. We see substantial long-term opportunities for investors.

\* net of fees in USD terms

\*\* net return in USD terms

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