Fund report, December 2021
European Value
Equities

Sparinvest

MARKETS FINISHED THE YEAR AT HIGHS

Omicron fears declined

Markets finished the year with strong returns in December. The MSCI World rose by 3.21%, which meant that for the full year the index returned an impressive 31.1%.

The spread of the Omicron variant dominated news early in the month with governments balancing the risks to health systems associated with apparent high transmissibility against early indications that Omicron symptoms were milder than that of prior COVID variants. By the end of the month, market opinion had fallen on the side of optimism and a strong rally ensued for the final two weeks. European markets had suffered the most during November when Omicron appeared, and European markets subsequently outperformed other regions in the December recovery.

Following on from the change in tone on inflation at the end of November, during December the U.S. Federal Reserve announced a further tapering of its quantitative easing and suggested the potential for three rate hikes during 2022. This move to rate tightening prompted an immediate bond market response, with yields rising across all maturities. Despite a more muted inflation outlook from European Central Bank president Christine Lagarde, European yields also rose with yields on 30 year German government bonds rising from -0.06% at the beginning of the month to positive 0.20% by the end of the month.

Commodities mostly recovered from their Omicron inspired sell off with Brent crude oil, copper and iron ore all rising during the month. European natural gas softened driven by geopolitical factors as US President Biden spoke with Russian President Putin about the purported Russian threat to Ukraine.

Value beat Growth but Growth took the year

The Portfolio returned 5.98% in the month, ahead of the MSCI Europe Index return of 5.52% but slightly behind the MSCI Europe Value Index return of 6.33%.

For the full year, the fund returned 27.63%, ahead of both the MSCI Europe Index return of 25.13% and the MSCI Europe Value return of 21.82%. In the month, the interest rate outlook was the primary driver of value style outperformance. The stronger focus on tightening monetary policy, particularly in the U.S., drove rates higher across many developed markets and this in turn benefitted lower priced value stocks.

Cyclical sectors like Industrials and Materials were the strongest in the month, but also defensive sectors such as Consumer Staples and Health Care posted above average returns. Despite the interest rate moves, the Financials sector only managed to post market average returns and the weakest sectors were the growth orientated Information Technology and Communication Services sectors. In December, sector exposures had no meaningful impact on performance, but for the full year, the fund benefitted from a slightly more cyclical sector composition than MSCI Europe.

The value style was the key driver of outperformance in the month, while the contribution from stock selection was slightly negative. The two largest contributors in December were also among the top five for the full year. Danish transport and logistics company A.P. Moller-Maersk was up another 18% and ended up more than 75% for the year. Finnish telecommunications equipment company Nokia had almost similar returns as momentum increased behind the global rollout of 5G cellular services.

See performance and fund data Click here >

Strategy
European Value invests in European equities, cf. the fund's prospectus. Stocks are selected using the value strategy, meaning that through careful fundamental analysis, the team strives to identify companies that trade at healthy discounts relative to intrinsic value. A risk-aware approach to the portfolio construction ensures a well-diversified portfolio and broad exposure across sectors and countries.