Sparinvest

Global Value

EQUITY

It's déjà vu all over again

Interest rates declined as COVID spiked

Markets. A market rally in the second half of the month allowed the MSCI World index to end in positive territory, with the index posting a return of 1.80%. Mid-month the index was struggling with rising instances across the world of the Delta variant of COVID-19. However, as the cadence of corporate earnings reports quickened, with significant positive surprises relative to consensus expectations, equity markets looked through rising COVID fears for a strong end to the month. There was little difference in aggregate between European and U.S. markets. Japan however, ended the month with a decline, despite the Olympics finally beginning, as the country began to fight its own spikes in COVID infections.

The U.S. was a primary source of COVID concern over the month. Vaccination rates, previously one of the world's leading, have plateaued of late at around 60%, with significant vaccine hesitancy. This vaccination rate, far below the level needed for any type of community immunity, is allowing the Delta variant to gain a foothold, driving discussion in some states for a return to restrictions. In contrast, the UK, having achieved a vaccination rate significantly above that of the U.S., removed almost all domestic restrictions on July 19 despite a rapidly rising caseload. The decision appeared to be validated by the end of the month as infections dropped sharply.

Despite U.S. inflation figures for June coming in again high and above expectations, bond markets rallied on rising fears for the nascent economic recovery as the Delta variant took hold. After peaking in early April, yields on 10 year Treasuries have declined by over 50 basis points. Yields on longer dated German government bonds also declined in the month, despite a marginally softened tone from the ECB on inflation and Eurozone inflation figures remaining high, albeit at fractionally lower levels than in the prior month.

Value struggled with rate declines

The Portfolio declined by 0.03% while the MSCI World index rose by 1.80%. The decline in global interest rates, notably in the U.S. and Europe drove significant underperformance for the value style as investors rotated towards growth companies whose valuations are underpinned by the low rate environment. The MSCI World Value index returned 0.62% in the month, also significantly underperforming the broad MSCI World Index. Relative to the MSCI World, the underperformance of the value style accounted for all of the portfolio underperformance, with stock selection a modest positive contributor in the month.

As could be anticipated from the outperformance of the growth style in the month, Information Technology was one of the strongest performing sectors. Health Care was also strong on strong earnings. Energy was the weakest sector, as oil prices finally declined after OPEC reached a tentative agreement on increasing supply. Financials were also weak due to the headwind from declining interest rates, despite positive news from the ECB allowing Eurozone banks to resume dividend payments. As mentioned above, the portfolio experienced positive stock selection despite the headwinds from the value style. Information Technology holdings Nokia and Oracle were amongst the strongest performers. Nokia benefitted from strong earnings reported in the month as its investments in new products began to yield results. Oracle, which had reported earnings in the prior month, benefitted from more market recognition for its cloud based growth drivers. Steel maker ArcelorMittal was also a strong performer in the month as it also reported strong earnings and cash flow as well as enhanced returns of excess cash to shareholders.

See performance and fund data Click here ›

Return is calculated gross of fees and excluding swing.

Strategy

Global Value invests in global equities from developed markets, 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 regions.