

Ethical Global Value

EQUITY

Markets dance to inflations tune

Inflation raised rate fears

Markets. Equity markets posted strong returns in June, with the MSCI World index rising by 4.63%. Economies in North America and Western Europe continued their opening phases; however, concern grew over the Delta variant of COVID-19, a variant with multiple times the infection rates of the original strain of COVID-19. The variant forced the UK to delay reopening; however, evidence from the UK suggests that the variant is not vaccine resistant. Unfortunately, many countries with low vaccinations rates, such as Australia, remain exposed.

The U.S. market was the driver of the strong returns, as equity investors digested mixed interest rate signals. Generally, long bond yields came down over the month. Meanwhile, short-term rates rose, after mid-month indications that the U.S. Fed might consider rate hikes in 2023 to tackle inflation. A more dovish tone came later when the Fed chairman Jay Powell, pointing to significant slack in labor markets, downplayed the likelihood of an early rate rise. In combination, this led to a flatter curve. European markets were weak in the month as the Delta variant introduced uncertainty as to the scale of the much hoped for European summer season.

Within Europe, short-term rates on German bunds rallied in response to the prospect of a tighter U.S. rate policy, however longer duration rates declined.

Within commodities, economic bellwether, copper, sold off in the month. However, oil prices rose to close to \$75 per barrel, their highest price since late 2018.

Rate expectations drove growth style

The Portfolio declined 0.03% in the June, underperforming MSCI World, which rose by 4.63%. The value style significantly underperformed the broader market, as reflected by MSCI World Value's return of 1.67%. This rotation in June from value to growth stocks, largely driven by the generally more dovish rate outlook from the Federal Reserve, accounted for the majority of the underperformance of the portfolio. However, an additional contributor to the weak performance of the portfolio was the underweight position in the U.S., which was the strongest major market in MSCI World.

Information Technology was the strongest sector in June, largely reflecting the outperformance of the growth style. Energy was also strong, driven by the continued strong oil price environment. Financials was among the weakest sectors as banks in particular sold off in both the U.S. and Europe, in response to the flattening yield curve, which directly impacts the profitability of their lending. Materials companies were also weak as a number of commodities, such as copper, sold off from their admittedly high levels.

Selection was a modest negative contributor to the portfolio in the month. As is typical in periods with strong outperformance in sectors such as Information Technology, the biggest contributors to negative selection were not owning large benchmark names such as Apple, Microsoft and Amazon. The portfolio did benefit from some strong performance in individual names. Kroger, a U.S. grocery chain was a strong performer as it reported stronger than expected earnings. American Eagle Outfitters, a clothing retailer, also contributed positively due to the continued retail reopening. Jefferies, a U.S. investment bank performed well, also due to strong earnings.

Return is calculated gross of fees and excluding swing.

See performance and fund data [Click here >](#)

Strategy

Ethical 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. Ethix SRI Advisors performs an unbiased screening to ensure that only ethically sound companies are included in the portfolio.