Sparinvest

European 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.

Bond yields drove growth style

The Portfolio lost 0.17% while the MSCI Europe Index gained 1.70% and the MSCI Europe Value Index returned 0.00%. Both European economic data and ECB comments continued to support equity markets. However, while expectations of a faster than expected economic recovery in the second half of the year and no near-term shift in monetary policy provided support, growing concerns over the Delta variant curbed investor enthusiasm towards the end of the month.

The underperformance of the value style, largely driven by the generally more dovish rate outlook from the Federal Reserve, accounted for the majority of the fund's underperformance. Additionally, a rotation from more cyclical sectors into defensives led to a slight headwind for the fund. Health care was the best performing sector as it showed its ability to hold up during volatile times after having underperformed for the past year. Another strong sector was Information Technology, 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 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. Among the worst performers and largest detractors was Bellway, whose shares fell almost 10% in line with other UK homebuilders, as there were signs of new home demand in the UK returning to levels that are more normal after having been above pre-pandemic levels for a while.

Return is calculated gross of fees and excluding swing.

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.