FUND REPORT

May 2021

Sparinvest

European Value

EQUITY

Inflation has arrived

Central banks shrug off inflation fears

Markets. After three consecutive months of strong returns, equity markets took a breather during May, with the MSCI World index declining 0.12%. Equity returns were muted in the month despite continued improvements to the global economic outlook with further openings from lockdown, particularly in developed markets. Initial April inflation figures raised fears of rising inflation and counter-balanced the positive impact on equity markets of the openings. In the U.S., annual inflation through April was reported to be 4.2%, and in the Eurozone 1.6%. Central bankers remained sanguine about the risks of higher inflation, pointing to short-term drivers of higher inflation such as higher year over year energy costs and supply inefficiencies as economies restart, both of which will mitigate as the year progresses.

The U.S. was one of the weakest of the major equity markets, underperforming Europe and Japan, both of which posted modest gains. European market performance reflected anticipation that the vaccine rollout was finally underway in a meaningful manner. Within Europe, markets that were the worst hit by the pandemic performed the best, with Italy, Spain and France outperforming Germany.

Bond markets sided with central banks in shrugging off inflation data. Yields on government bonds in both the U.S. and Europe were essentially unchanged in the month.

Economically sensitive commodities such as oil, copper and iron ore were flat in the month. Copper and iron ore, however, are at their highest price levels in a decade driven by a combination of strong demand growth and constrained supply.

Return is calculated gross of fees and excluding swing.

Strong stock selection

The Portfolio gained 3.96% while the MSCI Europe index gained 2.56%. The MSCI Europe value index was up 2.33%, but there were still signs that the value rotation that has been ongoing in the market since the fourth quarter of 2020 continued. European equity markets were supported by a very strong corporate earnings season. Cyclical sectors that are sensitive to the economic cycle fared well in terms of earnings as many benefited from both demand recovery and supply constraints. Consumer Discretionary, Financials and Consumer Staples led the advance while Information Technology and Utilities were laggards.

The portfolio's outperformance relative to the MSCI Europe index was partly driven by the value exposure benefitting from the rotation but the majority of outperformance was due to positive stock selection. The value rotation in the month was notable as it came even through interest rates were flat. Rising rates were the driver of the initial stages of the value rotation, beginning in the last quarter of 2020.

As described above, stock selection was a major positive contributor to the portfolio's outperformance in the month relative to the MSCI Europe index. Swiss industrial company, Rieter, was one of the strongest performing stocks in the portfolio. Rieter produces cotton and fiber processing machinery and is currently benefitting from a strong recovery in its end markets. Another strong performer and large contributor was the multinational automotive manufacturer Stellantis who announced the signing of a partnership with Foxconn, the manufacturer of the iPhone. The news of the JV was well received by market participants and the company's shares were rewarded for showing agility and shaping its strategy for the future.

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.