

# 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. Foreign Exchange markets however did react, with the dollar declining against most currencies such as the Euro and British Pound.

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.

### 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.

## Value returned to outperformance

**The Portfolio** gained 3.36% while the MSCI World index declined by 0.12%. The value rotation that has been ongoing in the market since the fourth quarter of 2020 continued after a brief hiatus last month, with the MSCI World Value index returning 1.36%, above the MSCI World Index although below the portfolio return. The outperformance for the portfolio relative to the MSCI World index was split between the value exposure of the portfolio benefitting from the rotation and some 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.

Comparing sectors, Energy, Financials and Materials were the strongest performers, reflecting not only broader value rotation but also the inflation sensitivity of these sectors. Information Technology and Consumer Discretionary, two of the strongest sectors from the prior month when the value style took a pause from outperformance, were the laggards during the month.

As described above, stock selection was a major positive contributor to the portfolios outperformance in the month relative to the MSCI World 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. Yamaha Motor, a Japanese producer of small engines for motorcycles and boats also performed well in the quarter with good demand driving improved earnings expectations. Despite the general underperformance of the IT sector, DXC Technologies, an IT sector holding in the portfolio was one of the best performing holdings as the company demonstrated further progress in their business turnaround. [See performance and fund data. Click here >](#)