Fund report, November 2021
Ethical Emerging Markets Value Equities

Sparinvest

COVID AND U.S. RATE FEARS HIT EM

Omicron variant caused sell off

Markets began the month with gains driven by strong returns in China. The Chinese market rallied as the central bank, the PBOC, cut reserve requirement ratios in an effort to stimulate both lending and the broader economy. Additionally, the government in China eased curbs on the domestic real estate market that had depressed investor confidence.

However, on November 25 health authorities in South Africa announced a new COVID-19 variant, later called Omicron that was feared more contagious and vaccine resistant than prior variants. Governments across the globe responded with immediate travel restrictions and tighter domestic controls. Fear of the impact on the global economic recovery weighed on markets, and MSCI Emerging Markets ended the month with a decline of 1.38% in euro terms. Emerging markets underperformed developed markets (MSCI World) which returned a positive 0.56% return. The weakness at the end of the month was compounded by comments from the U.S. Federal Reserve Chairman, Jerome Powell. The comments, focused on the rising risk of inflation, led to higher short-term yields in the U.S. and fears of a capital flight from emerging markets (EM) to the U.S.

Most individual markets declined in the month, however, Turkey led the declines in euro terms as the Turkish Lira experienced a large sell-off in response to a drop in central bank rates - despite high inflation levels. One of the few markets to end the month in positive territory, Taiwan, benefitted from its exposure to tech supply chains that remain stretched with high demand and limited supply.

Style headwind but selection was strong

The Portfolio declined by 2.08% in the month, underperforming the MSCI Emerging Markets Index which declined by 1.38%. The MSCI Emerging Markets Value was in line with the broader index, with a decline of 1.43%. With significant dispersion in returns between individual markets, country selection as well as style were headwinds to performance in the month.

Despite the apparent in line performance of the value index, the value style of the fund was a headwind in the month. Although short-term U.S. rates rose, long-term rates declined and this long-term rate decline favored higher valued growth stocks across global markets.

The appearance of the Omicron variant had a significant negative impact on global commodity prices as commodities mirrored equity markets fears of a global slowdown. The fund benefitted from not having exposure to the energy sector. That said, in energy-exposed Russia, our holding Magnit – a retailer – fell sharply as a major shareholder announced the unwinding of their position.

Stock selection had a positive impact on performance in the month, with particular success at a couple of long-term holdings. Taiwanese contact lens manufacturer, Ginko, was subject to an offer to take the business private at a significant premium to the starting stock price. Another holding, Anhui Expressway had very strong performance in the month after the announcement of a significant increase in the dividend payout on the stock.

See performance and fund data Click here >

Strategy

Ethical Emerging Markets Value invests in equities issued by companies from Emerging 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 countries.