Fund report, November 2021
European Value
Equities

Sparinvest

COVID GOT DEEP INTO THE GREEKS

Markets roiled by Omicron COVID variant

Markets were steady in November until the announcement, on November 25, of the discovery by health authorities in South Africa of a new variant of COVID-19. With fears over high levels of transmissibility as well as potentially reduced vaccine effectiveness, governments reacted quickly to enact travel bans and increase domestic restrictions.

Equity markets suffered sharp falls in the last week of November over concerns the variant, subsequently named Omicron, would cause significant harm to the global economic recovery. After having risen almost 4% during the month to November 25, the MSCI World Index ended the month with a more modest increase of 0.56%.

European markets suffered the most in the month as Omicron piled bad news onto an already deteriorating COVID infection situation. Even prior to the discovery of Omicron, a number of European countries had initiated stricter rules particularly in respect of unvaccinated segments of their populations. The MSCI Europe index declined by 2.49% in the month, compared to rises of 0.28% and 1.73% for the MSCI Japan and U.S. indices respectively.

Despite the emergence of Omicron, at the end of the month Federal Reserve Chairman Jerome Powell conceded that inflation was no longer 'transitory' and admitted that inflation risked becoming 'persistent'. This change of tone led to higher short-term yields in the U.S., although longer term yields declined, further flattening the U.S. yield curve. The Dollar strengthened against the Euro during the month, reflecting the rising macro-economic uncertainty in Europe.

Value stocks struggled with declining long rates

The Portfolio declined by 5.43% in the month, underperforming the MSCI Europe index which declined by 2.49%. The portfolio also underperformed the MSCI Europe Value index, which lost 3.77% as indicated by the performance of the Value index as compared to the broader index, the main driver of the portfolio underperformance was the performance of the value style. Although short rates rose, particularly in the U.S., the decline in long rates bolstered the valuations of stocks with a growth focus.

Sectors sensitive to economic momentum generally suffered the most in response to fears of the impact of Omicron on the global economy, while defensive sectors outperformed and Communication Services was the strongest sector. Energy and Financials were the weakest sectors. Energy stocks fell in tandem with oil prices while Financials struggled with declining rates and worries over global growth. The market also proved unforgiving for businesses that struggled to offset supply chain and cost inflation issues in their quarterly earnings reports.
Stock selection was a negative contributor. Danish transport and logistics company A.P. Moller-Maersk was among the largest positive contributors, as higher contract rates for next year seemed to drive the share price higher. Among the largest detractors was the German health care company Fresenius, whose stocks fell on a worsening outlook for its dialysis business from COVID-related increases in mortality. Multinational carmaker Stellantis were among the stocks that fell the most on the news of Omicron in spite of a solid backlog following the chip shortage, which could point to more normalized earnings in a not too distant 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.