Fund report, October 2021
European Value
Equities

Sparinvest

EARNINGS OUTWEIGHED INFLATION

Corporate Earnings Drove Markets Higher

Markets shrugged off a quiet start to the month as the initial wave of third quarter earnings reports provided positive surprises yet again, with corporate earnings appearing immune to headwinds such as macro-economic uncertainty and rising cost inflation. The MSCI World rose by 5.82% in the month. Most major markets rose, however the standout performer was the U.S., which rose by 7.11% in the month. The only major market that was weak was Japan. After notably strong performance in the prior month, Japanese equities declined as uncertainty rose due to a general election held at the end of October as well as renewed concerns over a weak post-COVID economic recovery.

The realization that energy prices were likely to remain high at least through the winter began to feed through to the market outlook for inflation, with the sentiment change accelerated by the Bank of England changing its tone on inflation. Within the U.S., a tapering of quantitative easing remained on the Federal Reserve agenda. European countries, such as Germany, announced September inflation figures at multi-decade highs. Bond markets responded to the higher inflation figures by driving intermediate term yields higher in both the U.S. and in Europe although long-term yields were flat or even declined, reflecting broader macro-economic concerns.

Energy prices indeed remained high during the month, with the Brent crude oil price rising to $84 per barrel. Although natural gas prices remain elevated they declined from their recent peaks in response to supply comments from major gas producers, notably Russia.

Hostile Month for Value

The Portfolio returned 3.43% in the month, lagging the MSCI Europe return of 4.66%. Style was a negative contributor to return in the month as the declines of long-term rates favored longer duration growth stocks. The value style underperformance resulted in a 3.60% return for the MSCI Europe Value Index.

Positive development in Spanish regulation and declining rates staged a comeback for Southern European Utilities, while so-called luxury stocks drove Consumer Discretionary higher as investors jumped back into the sector that was avoided by many investors just a month earlier. Among the top performing European sectors were also IT and Financials, where especially banks in spite the declining rates rose on the back of encouraging corporate earnings. A relative overweight in Financials could not offset an underweight in luxury stocks, Utilities and IT stocks, and there was a negative impact relative to MSCI Europe from the fund's sector exposures.

Stock selection was a minor positive contributor to returns in the month. The portfolio saw strong individual contribution from large banks like UBS and HSBC primarily due to strong results, while our German real estate lender Aareal Bank jumped more than 20% as private equity companies were exploring a takeover. German fertilizer company K+S continued to benefit from rising prices for its products and GlaxoSmithKline, a UK based pharmaceutical company was also a strong performer as the company reported better than expected earnings for the third quarter.

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.