Fund report, October 2021
Global 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 benchmark Brent crude oil price rising to $84 per barrel by month end. 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 2.33% in the month, lagging the MSCI World return of 5.82%. Style was a negative contributor to return in the month as in general the rising corporate earnings mostly benefitted growth stocks. Additionally, despite the rise in intermediate return rates, the declines of long-term rates also favored the growth style. The value style underperformance resulted in the 4.69% return of the MSCI World Value, below the return of the MSCI World.

Information Technology was the strongest sector in the month as the valuation of mega-cap U.S. tech companies responded to lower long-term rates. However, the earnings picture for technology companies were more mixed with some earnings beats but others pointing to supply challenges for future quarters. Other sectors had a more uniformly strong earnings season. Financials was also a strong sector performer, with bank results benefitting from continued economic recovery from the pandemic.

Stock selection was a negative contributor to returns in the month as the portfolio suffered from not owning some highly valued stocks that are large benchmark weights such as Microsoft, Tesla and Apple. Despite the market focus on these mega-cap companies, the portfolio did experience strong returns from companies such as U.S. fertilizer company Mosaic, which benefitted from rising prices for its products. U.S. regional bank Regions Financial benefitted from the rising near term rate environment as well as an improving macro-economic outlook. 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
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.