

## MARKETS FELL AS FEARS ROSE

### Markets feared rate rises and China contagion

**Markets.** In September, emerging market equities – as measured by MSCI Emerging Markets in euros – fell by 2.19%, on par with developed market equities (MSCI World) which declined by 2.37%.

Low visibility on the global economic outlook, the rolling off of furlough schemes and disquiet over inflation all contributed to the malaise. More specifically, China contributed significantly to negative sentiment globally, for two main reasons. Firstly, concerns grew over the solvency of Evergrande, a heavily indebted property developer, and the risk of potential spillover effects if it failed in a disorderly manner, given the scale and scope of the company and its debt. This did, though, lead to marginal policy easing late in the month. Secondly, China saw energy shortages as constrained coal supply led to price hikes and rising power curbs.

In the U.S., the Federal Reserve announced it would begin to reduce its quantitative easing program as soon as November and also indicated that rates may rise sooner than previously expected. The prospect of less liquidity and higher rates contributed to the market sell off.

Oil prices rose sharply with Brent briefly over USD 80 for the first time since 2018, and oil and gas heavy equity markets did well, with Russia rising a steep 8.4% in the month. Meanwhile commodities such as iron ore continued their declines, as industrial activity in China slowed. Brazil was the weakest market, falling over

11%, as benchmark heavyweight Value – an iron ore miner – fell over 18%.

### Fund lagged slightly in September; strong YTD

**The Portfolio.** In September, the fund fell by 3.30%, somewhat more than the MSCI EM decline of 2.19%. Meanwhile, MSCI EM Value – an index of value equities in emerging markets – fell by 1.22%.

Year-to-date, the fund is up 11.88%, ahead of both MSCI EM (up 4.26%) and MSCI EM Value (up 10.25%). In a volatile month, the fund saw both strong negative and positive contributors.

Chinese property holding Soho China fell, after U.S. private equity giant Blackstone decided to walk away from a potential takeover. Soho China remains deeply discounted to the underlying net asset value of its operations. Ternium, a Latin American steelmaker, fell along with other steelmakers globally amid concerns of decelerating demand.

Among our stronger contributors were two retailers. In Brazil, despite the tough market overall, Sendas Distribuidora rose over 13% in local terms. Sendas is a cash and carry operator, which is benefitting from a shift in consumer shopping patterns towards wholesale, hunting for cheaper deals.

Russian retailer Magnit also performed well, with solid sale momentum as consumer behaviour continues to normalize, inflation being passed on in product prices, and signs of market share gains.

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.

This material does not constitute individual investment advice and cannot form the basis for a decision to buy or sell (or an omission thereof) of investment certificates. The material has been prepared for information purposes only and investors are encouraged to seek necessary professional advice before buying or selling investment certificates. Sparinvest does not undertake any responsibility for the advice given and actions taken or not taken in respect of this material. The mentioned sub-fund is part of Sparinvest SICAV, a Luxembourg-based, open-ended investment company. Investors are urged to read the prospectus, the key investor information document and the current annual / semi-annual report of Sparinvest SICAV prior to investing. The documents are available at [sparinvest.lu](http://sparinvest.lu). There are always risks involved when investing and it is stressed that past performance or past return cannot be considered as a guarantee for future performance or return. Investors may not get back the full amount invested. Sparinvest makes reservations for possible typing errors, calculation errors and any other errors in the material.