Fund report, September 2021
European Value
Equities

Sparinvest

MARKETS FELL AS FEARS ROSE

Markets feared rate rises and China contagion

Markets declined during the month, with the MSCI World index returning -2.37% Low visibility on the global economic outlook, the rolling off of furlough schemes and disquiet over inflation all contributed to the malaise. However, markets fears were catalyzed by two events. Firstly, in China, concerns grew over the solvency of Evergrande, a heavily indebted property developer. Market anxiety focused on the risk of a poorly managed failure and whether that, given the scale and scope of the company and its debt, could have global impact. Secondly, the Federal Reserve announced it would begin to reduce its quantitative easing program as soon as November and indicated that rates may rise sooner than previously expected. The prospect of less liquidity and higher rates caused a market sell off, concentrated in the higher valued growth stocks. The one exception to the poor market sentiment was Japan where equities rallied as COVID-19 cases retreated and the unpopular Prime Minister announced his resignation.

Bond markets fell in both the U.S. and Europe after the Federal Reserve commentary, with both medium and long-term yields rising, although short-term rates remain rooted at low levels.

Commodities were extremely varied during the month. Primary commodities such as iron ore continued their declines as industrial activity in China slowed further. However, energy commodities strengthened during September as Brent crude touched levels not seen since 2018 and natural gas spiked. Moribund for years due to excess supply, natural gas prices are reflecting rapidly rising demand and competition for supply across different regions.

Value style recovered some ground

The Portfolio returned -1.13% during the month, outperforming the MSCI Europe index return of -3.01%. The last week of the month saw a significant rotation from higher valued growth stocks towards the value style, prompted by the Federal Reserve outlook for rates and quantitative easing. In such circumstances, it was positive to see the fund outperforming both the general market, but also the MSCI Europe Value index, which had a return of -1.83% in the month.

Energy was by far the strongest performing sector in the month, as stocks responded to higher oil and gas prices. Apart from Financials, which had a very slight positive return in the month, all other sectors posted declines. Utilities led the decline as the surge in energy prices sparked fears of regulatory changes. Materials also declined significantly as industrial commodities softened. Also weak was the Information Technology sector, which has a large number of highly valued growth stocks.

Stock selection was a meaningful positive in the month with a number of individual strong performers. The Norwegian energy company Equinor performed very well reflecting the performance of the underlying commodities. K+S, the German potash company also had good performance as higher energy prices filtered through into higher prices for the company's products. The portfolio also benefitted from not owning some of the largest index names, such as the Dutch IT company, ASML, which declined more than 8% in the month.

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.