Fund report, January 2022
European Value
Equities

Sparinvest

MARKETS REACT TO RATE OUTLOOK

Tighter Monetary Policy Increased Volatility

Markets weakened sharply in January as the imminent prospect of rising rates impacted both equities and bonds. During the month, U.S. Federal Reserve Chair Jerome Powell reiterated his view that inflation was a threat to the economic recovery and monetary policy needed to be tightened. Towards the end of the month Powell appeared to confirm market expectations that March would see the initial rise in U.S. rates. ECB President Christine Lagarde continued her more relaxed stance to monetary tightening, reiterating her view that Eurozone rates should rise more slowly than those in the U.S., despite inflation in the Eurozone hitting 5% in December, well above the 2% target set by the ECB.

Of the major equity markets, the U.S. market was one of the largest decliners, due both to the imminence of the rate rises in the U.S. as well as its large exposure to highly valued technology stocks. The MSCI World index declined by 3.92% however the MSCI USA index declined by 4.32% vs. a decline of 3.20% for the MSCI Europe index.

Bond markets fell in response to the increased likelihood of tighter monetary policy. Unlike bond market moves in the latter part of last year, which were concentrated at the short end of the curve, the entire U.S. curve shifted upwards in January with the 2 year rate rising 44b.p.'s, the 10 year by 29b.p.'s and the 30 year by 20b.p.'s. Bond markets in Europe also fell, with rates on German Bunds rising. However, perhaps sharing some of the ECB President's sentiment, the yield rise on Bunds was less than that of U.S. Treasuries, with the rises more concentrated at the short end of the curve.

Value Style Proved its Mettle

The Portfolio gained 2.57% in the month, ahead of the MSCI Europe Index loss of 3.16%. There was a sharp diversion between value and growth stocks, which could be seen in the performance of the MSCI Europe Value Index, which ended the month with a return of 2.73%. It was the higher rate expectations that caused a significant rotation away from the highly priced growth style and into the lower priced value style.

Sector dispersion was significant. The growth-oriented IT sector lost more than 12%. Meanwhile, rising inflation gave good tailwind for the Energy sector where a 13% gain reflected the strong oil and gas prices driven by high demand as well as geopolitical concerns. As expected, Financials were also strong as the sector generally benefits from rising rates.

The fund's value style exposure drove its outperformance, which perhaps also explains why the fund outperformed the index in all but one sector. The best performing stocks as well as the largest contributors mostly belong to the outperforming Energy and Financials sectors, but there were other holdings, that had strong individual performance. The UK mobile telecom company Vodafone was up more than 15% due to increased news related to consolidation activity in European mobile markets. German potash producer K+S gained more than 10% in market value as the company continues to benefit from solid potash market dynamics. German chemicals conglomerate, BASF, also had a strong month after it announced its first share buyback program since 2008. It is a strong signal to shareholders and it signals that management is confident about the 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.