Sparinvest

MARKETS FINALLY HEARD THE FED

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 US 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 US Treasuries, with the rises more concentrated at the short end of the curve.

Value Style Proved its Mettle

The Portfolio rose by 1.81% in the month, outperforming the MSCI World Index, which fell by 3.92%. The higher rate expectations globally impacted markets and caused a significant rotation away from the highly priced growth style into the lower priced value style. This value style rotation was seen partly in the performance of the MSCI World Value index, which returned 0.17% in the month, significantly ahead of the MSCI World Index return although still below the portfolio return. Whilst the portfolio outperformance against the MSCI World Value index still incorporated some benefit from the value style, stock selection was also a positive contributor to return against this index.

IT was the weakest market sector in the month, largely due to its concentration of mega cap, highly valued, growth stocks. Also weak was the Consumer Discretionary sector, which was dragged down by weak performance in Amazon, which accounts for almost 20% of the sector within the MSCI World. The strongest sector was Energy, which benefitted from strong oil and gas prices driven by high demand as well as geopolitical concerns. Financials were also strong as the sector generally benefits from rising rates.

Despite style being the largest explanatory of outperformance, within the portfolio there were some holdings that had strong individual performance. U.S. oil and gas company ConocoPhilips benefitted from rising oil and gas prices. UK mobile telecom company Vodafone experienced strong returns due to increased news related to consolidation activity in European mobile markets.

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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.

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