

MARKETS ROILED BY RUSSIA

Russia-Ukraine crisis dominated markets

Markets. During February, Russia-Ukraine tensions dominated news flows and market sentiment. In the pivotal final week of the month, European and U.S. allies initiated sanctions in response to Russian recognition of two breakaway Ukrainian republics. Ultimately, on February 24, the Russian invasion of Ukraine began.

During February, emerging market equities (as measured by MSCI EM in EUR) fell 3.18%, while developed market equities (MSCI World) fell 2.72%. Across equity, bond and currency markets, there was a focus on low risk assets. Classic safe havens such as the U.S. Dollar and U.S. Treasuries both strengthened markedly in the final week of the month. Commodities rallied, with the main attention on oil and gas and certain metals where Russia is a major exporter. Brent crude oil breached the \$100/barrel level at the end of the month. Aluminum and nickel also experienced significant upward price moves reflecting Russia's role as a major producer of the metals.

Even before the conflict spurred commodities higher, inflationary pressures were clear. Early in the month, the U.S. reported higher than expected inflation levels of 7.5%, with the rise partly due to rising energy prices. This led to rising rates in both the U.S. and Europe, U.S. 10-year treasury yields crossed above 2% for the first time since summer 2019. In this context, value equities suffered less than the wider equity market.

From a country perspective, Russian equities fell dramatically, with the Russian portion of MSCI EM falling 55% in February – with further falls, and ultimately re-

moval from the index, in early March. Eastern European markets such as Hungary, Poland, and Romania were relatively weak, while China also fell around 4.3%. Relatively outperformers included Peru (up 8.6%) and Malaysia (up 5.3%), driven by metals and food commodities price surges, respectively.

Limited Russian exposure in fund

The Portfolio. During February, the fund fell by 2.37%. This was a smaller decline than MSCI EM, which fell 3.18%. Meanwhile, MSCI EM Value fell by 1.84%.

So far, in 2022, the fund has gained 1.04%, compared to losses of -3.64% for MSCI EM and -1.16% for MSCI EM Value.

For an emerging market portfolio, a key question was Russian exposure. For some time, the fund had been underweight Russia compared to MSCI EM and MSCI EM Value, with only one holding: food retailer Magnit, held via a London listing. This was sold late in the month, as we assessed the rapidly deteriorating situation.

That the fund declined less than MSCI EM was partly thanks to not owning certain companies that dominate benchmarks, such as internet players Tencent and Alibaba. The fund also saw strong returns at certain holdings, including Banco do Brasil, Bank Negara Indonesia, and Sendas Distribuidora, a Brazilian retailer.

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. 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.