Fund report, Q1 2022
Balance EUR
Blend Funds

Sparinvest

GEOPOLITICAL UNREST SET THE AGENDA

Ukraine conflict set the agenda

Markets. The military conflict between Russia and Ukraine continues to leave its mark on the financial market. The initial phase of the conflict led to higher risk premiums until mid-March - after which risk premiums were generally eliminated. This process has so far followed the return patterns that have played out in previous military conflicts.

The conflict between Russia and Ukraine is going to push the focus away from the traditional key figures for a period. Key figures covering the period leading up to the outbreak of the conflict will be considered worthless - and key figures covering the period immediately following the outbreak of the conflict will be so affected by the event that the interpretation must be approached with caution.

The general trend in terms of confidence indicators in the manufacturing industry has been on the downside in March. The loss of confidence has been greatest in Europe, where, for example, the German IFO Expectations Index fell sharply from the level of 98.4 to 85.1. Confidence indicators in Asia also lost ground in March. The decline was most pronounced in China, which again was negatively impacted by Corona-related restrictions - but loss of momentum also occurred in South Korea and Taiwan. In the U.S., developments in March have been on the positive side. Business confidence rose from 57.3 to 58.5 according to Markit PMI Manufacturing. Overall, it gives a picture of a declining growth momentum in March, which is also reflected in the continuing negative trend in the relationship between order development and inventory development in the manufacturing industry.

Negative returns in the first quarter of 2022

The Portfolio delivered a return of -4.1% after costs in the first quarter, which was in line with the fund's benchmark

Equities had a difficult first quarter, with the global stock market given by MSCI World all countries yielding a return of -3.27% measured in euros. Overall, the equity component delivered a return in line with the portfolio's benchmark index for equities. The high jumper was global value stocks that delivered a return of 2.0%, while Danish stocks had a difficult quarter and ended with a return of -8.1%.

The interest-bearing asset classes all contributed with negative absolute returns due to the sharply rising interest rates in the first quarter of the year. Relatively speaking, however, the story was different, where investment grade, high yield and emerging market bonds delivered an excess return compared to their respective benchmark of 0.9%, 2.0% and 2.6% respectively. The Danish government and mortgage bonds underperformed their benchmark by 0.7%.

Convertible bonds were hit in absolute terms by the Ukraine conflict and rise in inflation and interest rate expectations, which hit broadly in all convertible bonds, regardless of stock sensitivities. Russian positions were sold last year, which contributed positively to the relative return, while an underweight to the most expensive parts of growth still contributes positively.

See performance and fund data Click here >

Strategy

Balance is targeted at investors with a short investment horizon and/or low risk tolerance. The fund has a well-diversified exposure to equities, mortgage credit bonds, developed market treasury bonds, emerging market treasury bonds, corporate bonds and cash. The equities exposure is tilted to benefit from the value, small cap and momentum factors, and the exposure to corporate bonds is sought to be obtained through small issuers, low net debt and strong asset backing. For treasury and mortgage credit bonds, the strategy is to maintain a constant portfolio duration within a tight range. The overall exposure to the different asset classes is strategic and no attempt is made to time the market. The target equity exposure is 50%, but a deviation of +/- 5% is allowed before the portfolio is rebalanced.