Fund report, March 2022
Ethical Global Value
Equities

Sparinvest

EQUITIES SEARCHED FOR DIRECTION

Markets moved from war fears to peace hopes

Markets ended the month by rising significantly after a selloff in the beginning of the month. The advance dominated the first half of the month, albeit a less effective one than anticipated, of the Russian military invasion of Ukraine. The second half of the month saw the Ukrainian defense force a stalemate and subsequent partial retreat by Russia, which led to rising hopes for a negotiated settlement between the two nations. Equity markets rallied on the potential for peace with the MSCI World index rising 3.72% in the month despite at one point during the first half of March having declined by more than 3.5%. U.S. equities led the rally with the MSCI U.S. index rising by 4.46%. European equities lagged with the MSCI Europe index rising by only 0.84%, reflecting the greater energy sensitivity of European manufacturing to disruption from the war.

High levels of inflation in Europe and the U.S. accompanied by the first Federal Reserve rate increase since 2018 drove short-term yields higher in bond markets. However, reflecting concerns over the longer-term economic outlook, yield curves in Europe and the U.S. experienced significant flattening. Indeed the U.S. the yield curve ended the month inverted, with 10-year rates below 2-year rates, for the first meaningful time since mid-2007.

Energy commodities suffered from extreme volatility in the month as financial sanctions impacted energy trading with Russia, driving the price of Brent crude oil as high as $125 / barrel early in the month. Prices then retreated to $100 as flows resumed only to be followed by further spikes as the U.S. directly sanctioned Russian crude. Natural gas prices in Europe remained at extremely elevated levels reflecting concerns over supply.

Value struggled with the yield curve

The Portfolio rose by 1.25% in the month, underperforming the MSCI World Index, which rose by 3.72%. The fund generally outperformed during the market declines in the first half of the month however as markets rallied in the second half of the month the fund lagged as the value style became a headwind. The MSCI World Value index return of 3.26% was also below the MSCI World index return, reflecting the negative performance of the value style in the month. The primary driver of the value underperformance in the last two weeks of the month was the flattening of European and U.S. yield curves.

The strongest market sectors were Energy and Materials, as strong commodity prices lifted the short-term earnings potential for companies within these sectors. Financials were one of the weakest sectors as the yield curve flattening, and in the U.S. inversion, impacts the lending margin that banks can generate. Other sectors that underperformed the market included the Consumer Staples and Consumer Discretionary sectors as higher inflation raised concerns over consumer spending.

Despite the underperformance of the value style in the month, the portfolio still had a number of holdings that contributed positively to performance. U.S. potash manufacturer Mosaic performed well as concerns arose over supply of this critical fertilizer, with much of the global supply provided by Russia and Belarus. U.S. grocery retailer Kroger also had strong performance as the company reported earnings and provided an outlook ahead of expectations. French investment company Eurazeo was also had a strong month as the company announced better than expected results and growth in its investment portfolio.

See performance and fund data Click here >

Strategy

Ethical 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. Ethix SRI Adviors performs an unbiased screening to ensure that only ethically sound companies are included in the portfolio.