Fund report, April 2022
European Value
Equities

Sparinvest

RATE INCREASES UPSET EQUITIES

Markets stopped trying to fight the Fed

Markets declined during April, with the MSCI World index declining by 3.29% in the month. The U.S. market led declines with the MSCI US index falling by 4.12%. Rising interest rates in the U.S. were the most significant driver of negative market performance in the month. The Federal Reserve (Fed), which sets monetary policy in the U.S., raised rates by 0.25% in March. Since that rate rise, however, a consensus amongst economists formed that the Fed would increase rates by 0.50% in May and even possibly another 0.50% in June. The rising rate outlook led to concerns over the medium term health of the U.S. economy, with fears compounded by a series of disappointing quarterly earnings reports from highly valued large cap companies.

European markets outperformed U.S. markets, with the MSCI Europe index declining only 0.60% in the month. The outperformance of European markets came from a stabilization of energy prices after the prior month's jumps as well as a more muted approach to interest rate increases from the ECB. The priority of the ECB is to end quantitative easing in the second half of 2022, before even beginning to raise rates.

Bond markets responded to the increasingly hawkish stance of the Fed with rising yields across all maturities. However, the fears of the economic consequences of a fast rise in interest rates meant the yield curve remained flat, if not inverted. Within Europe, yields on German bunds also rose, with only the shortest maturity bunds trading at negative rates.

Rising U.S. rate expectations also impact currency markets, with the U.S. dollar rising sharply against other major currencies. The euro reached a low of $1.05/€ which benefitted the stocks of export orientated companies within Europe.

Value style recovered some ground

The Portfolio returned 0.61% during the month, outperforming the MSCI Europe index return of -0.60%. The value style was certainly a driver of portfolio outperformance, with the MSCI Europe Value index returning 0.75%, slightly above the return of the portfolio. Rising rates both in the U.S. as well within Europe was the primary driver of value performance. As well as the positive contribution from the value style, the portfolio also benefitted from significant positive stock selection.

Energy was a strong sector in the month as commodity prices remained high, albeit more stable than the prior month, which allowed large energy producers to report strong earnings and cash flow. Other good sectors performers included the more defensively orientated Health Care and Consumer Staples sectors. Concern over earnings led to sectors such as Information Technology and Consumer Discretionary being amongst the worst sector performers in the month.

Stock selection was a significant positive in the month with a number of individual strong performers. Johnson Matthey is a UK based emissions control company with exposure to hydrogen technology. The company performed well in April due to the announcement at the end of and month that a large investor had acquired a significant stake in the company, focusing market attention on the company's underlying value. German Potash Company, K+S, continued its run of good performance with strong returns in the month as prices for potash remained high due to supply disruptions from Russia and Belarus. Danone, the French nutrition and food company was also a strong performer after reporting good earnings for the first quarter of 2022.

See performance and fund data Click here >

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.