Sparinvest

MARKETS FEARED INFLATION

Markets battle back from early sell off

Markets sold off in the beginning of the month as fears rose that central banks, responding to high inflation, would have to tighten faster than expected causing economic weakness. However, in the second half of the month, markets recovered after more balanced statements on the outlook for rates from individual members of the U.S. Federal Reserve. Markets were further assisted by the end of COVID lockdowns in economically important Chinese cities such as Shanghai.

The MSCI World Index declined 1.45% in the month, although this drop was itself a recovery compared to a decline of over 5.5% early in the month. The U.S. market was one of the weakest of the major markets, with returns impacted by rising interest rates. Europe was one of the better performing regions, with the MSCI Europe index declining by only 0.78%. Notable in Europe was good performance in Germany as lockdowns eased in China, a key export market.

Bond markets responded to continued high inflation levels with a further sell off, pushing yields higher across all maturities. In the U.S., the rate rises were concentrated in the shorter end of the curve, with the yield curve flat from three years maturity, indicating continued long-term concerns over the economy. Within Europe, yields on German Bunds rose across all maturities, with only very short dated notes receiving a negative yield. For the past twelve months, the faster interest rate response of the U.S. Federal Reserve, at least relative to the European Central Bank, has led to a strengthening of the Dollar against the Euro. However, in May, the Euro strengthened against the Dollar as U.S. rate rises only kept pace with expectations and the ECB set out a plan to end negative interest rates by the end of the third quarter.

Value outperformed the declining market

The Portfolio returned 1.44% in the month, ahead of the MSCI World Index, which declined by 1.45%. The portfolio also outperformed the return of the MSCI World Value index, which posted a positive return of 0.52% Relative to the MSCI World, the value style was a key driver of outperformance. However the fund also had a strong contribution from individual stock selection. Relative to the MSCI World Value, stock selection was also important. However, style remained a significant component of outperformance even against the Value Index as the portfolio benefitted from a purer exposure to the value style than the Value Index.

Energy was the strongest market sector in the month, as energy commodity prices, in particular oil, increased. The increase in oil came as the European Union debated whether to ban outright purchases of Russian oil. Consumer Staples and Consumer Discretionary sectors amongst the weakest sectors as markets grew concerned over the impact of inflation on consumer behavior.

Stock selection was an important contributor to the performance of the fund relative to the indices in the month. U.S. technology company, DXC, performed well as an earnings report showed the turnaround is still track despite short-term noise. Dutch bank ING was also a strong performer in the month as the prospect for rising European interest rates benefitted the financial sector in Europe. U.S. auto component supplier, Dana, performed well in the quarter as the end of lockdowns in China raised the prospect of less supply chain disruption in the auto industry.

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.