Fund report, June 2022
European Value
Equities

Sparinvest

SELL-OFF ON FEARS FOR ECONOMY

Major markets hit bear market territory

Markets experienced significant declines during June, with large falls in major equity markets driven by increased fears for the global economic outlook. Rising interest rates are leading to lower forecasts for economic growth, with skepticism mounting over the ability of the world's central banks, most prominently the U.S. Federal Reserve, to manage a soft landing. Markets are beginning to factor in a significant probability of a recession in the U.S. over the next couple of years. Even if a recession were to be avoided, with growth declining and inflation remaining high, the spectre of stagflation looms over the markets.

The MSCI World declined by 6.41% in the month. Europe was the weakest region with the MSCI Europe index declining by 7.73%. Europe was led lower by Germany, which is facing twin threats of slowing global growth hitting its export orientated economy and increasing energy uncertainty due to its heavy reliance on natural gas from Russia.

With inflation hitting high single digit levels, central banks had no choice but to accelerate monetary policy tightening in the month. In the U.S., the Fed raised its benchmark rate by 0.75%, the largest single rate rise since 1994. Christine Lagarde, president of the ECB, announced rate rises, beginning in July would be continued in September. However, Eurozone debt issued by highly indebted countries such as Italy began to trade at wider spreads against German bunds. This warning signal, a throwback to the Euro crisis of the early 2010s, is leading the ECB to manage the possibly incompatible tasks of tightening monetary policy whilst fighting spreads. Japan remained the outlier amongst major central banks, with the BOJ's commitment to loose monetary policy leading to a sharp sell-off of the Japanese Yen against the U.S. dollar.

Value style struggled to fight economic fears

The Portfolio declined by 9.71% in the month, below the decline of 7.73% for the MSCI Europe. The major source of the underperformance was the value style of the portfolio. Rising interest rates are bringing down valuations across all asset classes, including equities. As a portfolio of lower priced stocks, the portfolio, and indeed the value style in general, is less exposed to the price correction of equity markets than higher priced growth stocks. However, in a month where the focus was on the prospect for global growth, the market favored perceived economic safe havens sectors such as Health Care and Consumer Staples with less focus on absolute valuations. The MSCI Europe Value index declined by 9.10%, below the broader index but above the portfolio. However, the World Value index benefitted in the month relative to the portfolio from its exposure to some non-value style factors.

In contrast to the safe haven sectors such as Health Care and Consumer Staples, the weakest sectors were commodity sensitive sectors such as Energy and Materials, along with Real Estate and IT.

In a month with such significant market declines, strong individual stock performance is typically a relative measure. Consequently, some of the largest contributors to outperformance were benchmark names not held in the portfolio like ASML (IT), Siemens (Industrials) and BP (oil and gas) – all down between 10 and 20% and representative of more economically sensitive sectors. Similarly, the large detractors were relatively large positions from more cyclical industries like ArcelorMittal (Steel), BASF (Chemicals) and ENI (oil and gas).

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.