Fund report, Q2 2022
Procedo EUR
Blend Funds

Sparinvest

LOSS OF ECONOMIC MOMENTUM

Loss of economic momentum

Markets. Key figures point to a significant loss of growth momentum in the OECD area during June. This can be seen in the order components of the recently published business confidence indicators. The order index for both the U.S., the EU and Japan fell below index 50 in June, according to data from S&P Global. The development was subsequently confirmed by ISM data from the USA. The order component fell from 51.1 in May to 49.2 in June. In comparison, the ISM order index was 66.4 in June 2021. The widespread vacuum in order intake again coincides with signs of stockpiling. The balance between the order index and the inventory index has not been lower since November 2001 - disregarding the extraordinary major shocks associated with the financial crisis and the corona crisis.

Overall, the development has brought the CLI indicator for the OECD area into a downturn phase. However, the aforementioned development in order intake and inventory build-up may indicate that the ongoing slowdown in growth in the OECD area is at risk of becoming harsher in comparison with the "mini-cycles" in the periods 11/12 and 15/16, where moderate growth slowdown was replaced by moderate growth progress. However, it must also be emphasized that China is currently experiencing renewed growth momentum. The development is mainly due to less restrictive Corona interventions in China, where partial shutdowns in Shanghai, Shenzhen and Beijing are underway.

Losses across asset classes

The Portfolio delivered a return after costs of -8.5% in the second quarter, which is slightly better than the fund's benchmark return of -9.4%. Returns across all asset classes were negative for the quarter, with the war in Ukraine, high inflation and rising interest rates resulting in high market volatility with price declines as a result.

Equities had a difficult second quarter, with the global stock market given by MSCI World all countries yielding -10.2% measured in euros. The fund's equity component returned 9%, outperforming its benchmark by 1.2 percentage points. The outperformance was mainly due to the value exposure, but emerging markets also performed relatively well during the period.

The sharply rising interest rates we saw in the first quarter continued into the second quarter, with the interest rate on the Danish 10-year government bond rose from 0.8% at the beginning of April to 2.1% in mid-June and then fell back to 1.7% at the end of June. The rising interest rates were reflected in the bond prices with losses as a result. Overall, the bond component lost 7.7%, which is in line with the fund's benchmark index for bonds. In particular, exposure to Danish mortgage bonds contributed negatively to the relative performance, while high yield and emerging market debt contributed positively to the excess return.

Convertible bonds had another good quarter in relative terms, with a return of -9.6%, which is 3 percentage points more than its benchmark. Infrastructure and private equity delivered returns of -3.2% and -7.7%, respectively.

See performance and fund data Click here >

Strategy

Procedo is targeted at investors with a long investment horizon and/or high 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 65%, but a deviation of +/- 5% is allowed before the portfolio is rebalanced.