Fund report, July 2022
Global Value
Equities

Sparinvest

MARKETS RALLIED IN JULY

Markets switched from fear to hope

Markets experienced significant strength in July as hopes rose that the world's central bankers, led by the U.S. Federal Reserve (Fed), would find the narrow path between raising rates high enough to beat inflation whilst avoiding economy crushing levels of interest rates. This rise in hope started with the release of minutes from the June meeting of the Fed rate setting committee that suggested flexibility over the future path of rate rises. Despite a further 75 bp rise in rates announced at its July meeting, the Fed remains 'data driven' on future rate increases. Markets interpreted this flexibility and 'data driven' approach as a sign of the beginning of the end of the tightening cycle with equity markets experiencing a very strong month. The MSCI World index rose 10.67% in the month, led by the U.S. with the MSCI USA index rising by 12.06% and the tech heavy Nasdaq index rising by over 15%. Europe and Japan were relative laggards despite strong absolute performance, with the MSCI Europe index rising by 7.60% and the MSCI Japan index rising by 8.37%.

Bond markets shared equity market enthusiasm for a slowing of rate rises, despite inflation remaining at high single digit levels in the U.S. and Europe. U.S. medium and long term rates declined in the month. In Europe, despite the fact that the ECB rate tightening only actually began in the month with an above expectation 50 bp rise in benchmark deposit rates, government bond yields declined. German 2 year Bund yields declined to 26 bp over the month as bond markets pared expectations for future ECB rate rises. Rising rates, political dysfunction and warnings from credit rating agencies all contributed to a further widening of spreads for Italian government bonds over German bunds, indicating stresses within Eurozone financial markets had not abated.

Value style lagged as stocks rebounded

The Portfolio rose by 7.55% in the month, below the rise of 10.67% for the MSCI World in the month. The major source of the underperformance was the value style of the portfolio. As markets anticipated an end to interest rate rises the more highly valued growth stocks that had been punished earlier in the year from rising rates, performed the best. The MSCI World Value index reflected the rotation to growth names, with a return of 7.21%, below that of the broad index as well as the portfolio.

Growth oriented sectors such as Consumer Discretionary and IT were the best performing sectors in the month, with large benchmark names such as Tesla, Amazon and Apple having strong returns in the month. Health Care and Telecommunications were relatively the weakest sectors in the month, although no sector experienced negative returns in absolute terms.

Despite the underperformance of the portfolio against the broad index, there were still areas of strong stock selection. Notably against the MSCI World Value, which the portfolio outperformed, strong stock selection was a key component of the outperformance. U.S. bank Wells Fargo was a strong performer in the month as the rising rate environment as well as decreased expectations for a severe recession improved the outlook for banks in the U.S. Technology company Oracle also performed well in July as the market recognized its combination of stable cash flows as well as an improving cloud business. Metso Outotec, a Finnish mining and recycling equipment manufacturer was also a strong performer during the month as increased customer order activity was anticipated to lead to higher future earnings potential for the company.

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.