Fund report, November 2022
European Value
Equities

Sparinvest

INFLATION, JOB DONE?

Markets jumped on sign of inflation peak

Markets rose in November, with the MSCI World index returning 2.66% However, the month was bookended by two days of extremely strong equity market performance with the tone for the market in between far more mixed. The catalyst for strong market performance on those two days were indications that inflation may have peaked. On November 10, the U.S. Department of Labor reported inflation for October to have been 7.7%, below consensus expectations. On November 30, Jerome Powell, the Federal Reserve chair, suggested that the pace of interest rate increases would moderate, starting with the upcoming December meeting.

The reduced inflation expectations led to declines in the U.S. dollar against the euro, after months of dollar strengthening. The decline in the dollar meant that the U.S. market was the weakest of the major markets in euro terms. Despite rising 5.38% in local terms, the MSCI USA index returned only 1.15% in euro terms, compared to a return of 6.88% for the MSCI Europe.

Europe had its own positive inflation report, at least relative to expectations. Eurozone inflation for November slowed after 2½ years of rises, although the headline rate was still a very high 10%. Even after stripping out volatile components such as food and energy, the core level of inflation remained elevated at 5%.

Bond markets also rallied on the hope of inflation peaking, with yields dropping on longer duration German bunds and U.S. treasuries. Yield curves remain inverted with yields on longer maturities lower than shorter maturities, a much cited recession indicator.

Positive returns, but slightly behind benchmark

The Portfolio rose by 5.98% in the month, which was slight less than both the MSCI Europe Index return of 6.88% and the MSCI Europe Value Index return of 6.72%. German and Italian stocks, often cited as most exposed to the energy crisis, outperformed as the risk of running out of gas this winter further reduced thanks to relatively mild temperatures and reduced demand.

All sectors gave positive returns, extending their gains from October in a market led by the more economically sensitive sectors like Consumer Discretionary and IT. Consumer Discretionary was the best performing sector, as some of the large luxury goods companies soared on hopes that China is relaxing its strict lockdown measures. Materials was also one of the best performing sectors as many industrial commodities rose, a classic response to a declining dollar. Energy, however, was one of the weakest among the cyclical sectors as oil prices fell in response to concerns over demand as the global economy slows down.

Contribution from stock selection was negative. Among the largest detractors to relative returns were some of the large benchmark positions in IT and Consumer Discretionary that the fund does not own. The worst performing stock was Credit Suisse where investors weighed the outcome of its restructuring efforts in a month where we saw reports of large asset outflows from its wealth management business. Among the best performers was Metso Outotec, a Finnish mining and recycling equipment manufacturer that benefitted from rising commodity prices and improved the outlook for the company's products.

See performance and fund data Click here >

Strategy
European Value invests in European equities, 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 countries.