Fund report, November 2022
Global 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.

Value outperformed despite inflation decline

The Portfolio rose by 3.90% in the month, ahead of the MSCI World Index return of 2.66%. The value style was a positive contributor to returns, despite the moderating inflation and interest rate outlook, with the MSCI World Value index rising by 2.93% The portfolio benefitted from its value style exposure against the MSCI World Index but also against the MSCI World Value index due to the Value index having other non-value style characteristics, such as having stocks with higher dividend yields. The fund also benefitted from strong stock selection versus both the MSCI World and the MSCI World Value indices.

Materials was one of the best performing sectors in the market during the month as many industrial commodities rose, a classic response to a declining dollar. Energy, however, was one of the weakest sectors as oil prices fell in response to concerns over demand as the global economy slows down as well as fears over the demand impact from continued COVID restrictions in China. Financials were also one of the better performing sectors as the earnings outlook for banks remained strong with interest rates elevated. Consumer stocks were more mixed due to investor fears over the impact on disposable incomes from rising costs. U.S. clothing retailer American Eagle Outfitters was a strong performer in the month as it reported quarterly earnings ahead of expectations. U.S. semiconductor equipment manufacturer Applied Materials also posted strong performance after also releasing strong quarterly earning combined with a robust outlook for the first part of next year. Metso Outotec, a Finnish mining and recycling equipment manufacturer also performed well as rising commodity prices improved the outlook for the company's products.

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.