

RECESSIONARY CONCERN LOOMED

Fearing, not fighting, the Fed

Markets declined in December with the MSCI World index falling by 7.62%. Inflation pressures appeared to ease in the month with the U.S. posting a further reduction in inflation, helped by declining energy prices. However, both the U.S. Federal Reserve and the European Central Bank retained a more hawkish tone on inflation suggesting market expectations on the peak point for interest rates may prove too optimistic. The hawkish commentary from the central banks led market declines, particularly in the U.S., which was the weakest of the major markets. The MSCI USA index declined by 9.23% in the month compared to declines of only 3.51% for the MSCI Europe and 3.27% for the MSCI Japan. Rising fear that the Fed will raise rates too high and cause a recession was the primary cause of the U.S. market underperformance in the month.

For the full year the MSCI World declined by 12.78%, just off lows for the year which were reached during the summer. A strong fourth quarter rebound in European markets meant that the U.S. market ended the year as the worst performing of the major markets, declining by 14.59%. Germany was the worst performing major European market for the year as German companies suffered from their reliance on imports of natural gas from Russia and exports of finished goods to China where demand was impacted by COVID lockdowns. The United Kingdom, with its large exposure to commodity producers, was one of the best performing markets.

Bond markets declined in the month, with yields on both short and long term U.S. treasuries rising. Yields on German bunds ended the month close to the highs of the year. Both German and U.S. government bond yield curves finished the year inverted, affirming market fears of a forthcoming recession.

Value ended the year as it began

The Portfolio declined by 2.45% in the month, outperforming the MSCI Europe Index which fell by 3.51%. For the full year the portfolio returned -5.90%, which was ahead of the -9.49% that the MSCI Europe index returned over the year. For the month, as for the year, the value style of the fund was the dominant driver of outperformance. Rising global interest rates in response to inflation was the economic theme of the year, and these rising rates benefitted the value style leading to significant outperformance of value over the growth style in the year.

The MSCI Europe Value Index returned -2.63% in the month in line with the fund, and -1.08% over the full year. The relative underperformance against the Value Index partly relates to other factor exposures, such as a small cap bias in the fund and a different sector allocation, where the Value Index benefitted from a material exposure to Energy. Finally stock selection was also a net detractor for the full year. A handful of stocks disappointed during the year and this led to negative contribution from stock selection, with the worst detractor being Credit Suisse, who announced a rights offering in the fourth quarter

Finnish mining equipment company, Metso Outotec, contributed to strong stock selection in December after announcing a strong pipeline of new orders during the fourth quarter. Austrian industrial group, Andritz, was another solid contributor in the final month after it rose more than 10% when it reported Q3 results much stronger than anticipated and a record order backlog.

See performance and fund data

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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.

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