

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 U.S. 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 12.8%, 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 6.41% in the month, outperforming the MSCI World index which fell by 7.62%. For the full year the portfolio returned 0.09%, which was ahead of the -12.78% that the MSCI World 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 World Value index declined by 5.89% in the month, better than the performance of the portfolio. However, over the full year the portfolio return of 0.11% was above the -0.4% that the MSCI World Value index returned. Although style remained an important source of outperformance against the Value index as the fund benefited from a purer value exposure than the index, stock selection was also a key contributor to outperformance. For the year holdings such as U.S. fertilizer company Mosaic, Japanese energy company, Inpex and European insurance company Zurich were all important contributors to performance.

In the month the portfolio benefitted from not owning large benchmark positions such as Apple, Tesla and Amazon, all of whom experienced significant declines. Within the portfolio strong performers in the month included Japanese bank Mitsubishi UFJ, which benefitted from the Bank of Japan increasing its yield cap, a potential prelude to tighter monetary policy. Finnish mining equipment company, Metso Outotec, also performed well after announcing a strong pipeline of new orders during the fourth quarter.

See performance and fund data

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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.

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