Sparinvest

FROM INFLATION SHOCK TO YIELD SHOCK

From inflation shock to yield shock

Markets. "From inflation shock to interest rate shock" characterized both the economy and the financial market in 2022. In 2022, the OECD economies experienced the highest inflation in more than 40 years. Part of that development can be attributed to the consequences after corona in the form of bottlenecks within, for example, transport, energy and intermediate goods. Another part must be attributed to imbalances in the job markets, where the demand for labor significantly exceeds the supply. This has resulted in the highest wage inflation since the beginning of the 80s, with the development in the USA at the forefront. Leading central banks at the start of 2022 considered the higher inflation to be a temporary phenomenon. During the second quarter, the central banks, led by the U.S. Fed, recognized that the price increases had a more persistent nature. It initiated the strongest synchronized monetary tightening cycle in more than 40 years. *The inflation shock* thus developed into a severe *interest shock* in mid-2022. Inflation and interest rate movements of such a nature have, as mentioned, caused several major shocks in 2022. Primarily, they have eroded purchasing power and increased general financing costs.
The development has put pressure on economic momentum. The slowdown (CLI) in the OECD area, which started in late summer 2021, has thus been extended and has since spring 2022 developed into a downturn (CLI) with a growth rate below the historical trend level. In light of the negative development, it is unusual that central banks have continued the synchronized tightening cycle – but that is the price when the inflation component is misjudged and monetary tightening is implemented too late. For the first time since the financial crisis, the synchronized tightening cycle has the potential to reverse the trend in strategic economic factors such as the job market and the housing market. It began to play out in the most interest-sensitive sectors during 2022.

Strong performance in the 4th quarter

The Portfolio. After costs, the fund delivered a return of 5.3% in the 4th quarter, which was well above the fund's benchmark MSCI World ACWI, which returned 0.75%.

Global shares had an overall moderate 4th quarter, where the global share market given by MSCI World all countries delivered a return of 0.75% after having been up by over 8% at the end of November.

The contribution to the fund's excess performance came from all three active strategies. Value equity delivered a return of 7.7% for the quarter, where stock selection via, among other things, an underweight to big tech stocks such as Apple, Amazon and Tesla was the primary driver for outperformance. Performance in Sustainable equities was more broadly based, where exposure in growth-oriented names, the semiconductor industry, as well as greater exposure within finance and health care contributed to a return of 4.5% for the quarter.

Danish shares had a particularly volatile year, with the market down by over 25% at the end of September. In the 4th quarter, some of the lost was recovered with a return of 17.5%, which was just over 2%-points more than the market return for Danish shares for the quarter.

See performance and fund data Click here >

Strategy
Equitas invests in a global portfolio comprised exclusively of shares from the mature markets compared with the current prospectus. The goal is to optimise the relationship between risk and return by exploiting documented market factors such as value, momentum and size.

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