Fund report, Q4 2022
Minimum EUR
Blend Funds

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 2.1% in the 4th quarter, which is well above the fund's benchmark, which gave a return of 0.6%.

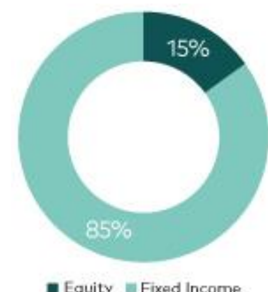
Global equities had a moderate 4th quarter, with the global equity market as measured by MSCI World all countries delivering a return of 0.75% after being up over 8% at the end of November. The fund's equity component gave a return of 5.8% - significantly outperforming the fund's comparison index for equities. All equity pools contributed to the outperformance, but especially Danish equities and value equities contributed positively with a return of 17.5% and 7.2% respectively for the quarter.

Bonds also delivered positive returns in absolute as well as relative terms. The contribution to the relative return was broadly based, however, with Danish government and mortgage bonds as the largest contributors. The return on short and long European bonds was 0.9% and 2.2% respectively. Falling interest rates at the long end of the curve, as well as a narrowing of the mortgage credit spread, contributed positively to performance. Emerging markets debt and high yield also contributed positively to performance with returns of 7.8% and 4.5%.

Convertible bonds delivered a return of 2.2%, which was 1.0% below the asset class reference benchmark. For the whole year, however, the asset class finished ahead with 2.7% points. Infrastructure and private equity both delivered positive returns of 1.9% and 0.2% respectively.

Strategy

Minimum is targeted at investors with a short investment horizon and/or low risk tolerance. The fund has a well-diversified exposure to equities, mortgage credit bonds, developed market treasury bonds, emerging market treasury bonds, corporate bonds and cash. The equities exposure is tilted to benefit from the value, small cap and momentum factors, and the exposure to corporate bonds is sought to be obtained through small issuers, low net debt and strong asset backing. For treasury and mortgage credit bonds, the strategy is to maintain a constant portfolio duration within a tight range. The overall exposure to the different asset classes is strategic and no attempt is made to time the market. The target equity exposure is 25%, but a deviation of +/- 5% is allowed before the portfolio is rebalanced.



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