

MARKETS OFF TO STRONG START

Global recession fears faded

Markets had a strong start to the year with the MSCI World index rising by 5.22% during the month as hopes grew that the U.S. Federal Reserve would be able to engineer the soft landing required to dampen inflation whilst avoiding recession. U.S. headline inflation figures for December softened and the more closely watched core inflation was in line with expectations of 5.7%. However, the initial estimates for fourth quarter GDP suggest the U.S. economy is resilient despite pockets of concern related to retail spending and manufacturing. The prospect of China reopening from its COVID-19 related restrictions provided markets further signs that 2023 will not be as economically weak as first feared.

The U.S. was the driver of positive economic news; however, Europe was the strongest region for developed market equities. Both Germany and France had particularly strong returns as the European Central Bank showed some success in battling inflation and a warmer than forecast winter meant that pressure on energy prices was partly alleviated.

Despite market optimism, the Federal Reserve and the ECB both noted during the month that inflation remained elevated and that more interest rate rises should be anticipated to bring inflation under control. Bond markets remain less sanguine than equity markets, with the U.S. treasury curve resolutely inverted, a recessionary indicator.

The dollar continued to soften against the other major currencies such as the euro and the Japanese Yen, with the changing trajectories for relative interest rates driving the dollar weakness.

Value started well despite growth recovery

The Portfolio returned 7.79% in the month, ahead of the MSCI Europe Index return of 6.79% as well as the MSCI Europe Value Index return of 6.61%. Despite the underperformance of the Europe Value index, value was actually a relatively positive factor in the month, but its industry composition gave some headwind. Sectors where the value index has low exposure such as IT and Consumer Discretionary were strong performers and sectors where it has high exposure, such as Energy, underperformed the wider market. However, for the portfolio, the value style of the fund accompanied with less impact from sector exposures led to outperformance against both indices.

Economically sensitive sectors were among the best performing sectors in the month as the outlook for the global economy improved. Energy was one of the weakest market sectors as a warm European winter led to declines in prices for major energy commodities such as natural gas.

Among the largest detractors to relative performance were a handful of well performing benchmark names that are not in the fund. This include large IT companies SAP and ASML, but also some of the luxury goods companies that were particularly strong following the news of China's economic reopening. The fund had its own strong performers with ING and Renault being the largest positive contributors. Dutch bank ING reported strong earnings for 2022 based on the rising rate environment and shares of the French carmaker Renault was up almost 20% in a month where a long awaited agreement on the future of its longstanding partnership with Nissan was announced.

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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