Fund report, January 2023
Global Value
Equities

Sparinvest

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 5.54% in the month, ahead of the MSCI World Index return of 5.22% as well as the MSCI World Value Index return of 2.86%. Despite the underperformance of the World Value index, value was actually a strong positive factor in the month. The underperformance of the World Value index against the broader World index was due in part to its industry composition, with sectors where it has low exposure such as IT being strong performers and sectors where the Value index has high exposure, such as Energy, having weaker performance. The exposures of the Value index to non-value factors, such as Dividend Yield, also had a negative impact on performance. However, for the portfolio, the value style of the fund accompanied with less exposure to these non-value factors led to outperformance against both indices.
Economically sensitive sectors such as Consumer Discretionary and Materials were among the best performing sectors in the month as the outlook for the global economy improved. Also strong was IT as some of the stocks that had struggled most in 2022 caught a small bounce. 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.
The portfolio had some strong individual performers in the month. U.S. residential builder Pulte Group had good performance as the market began to anticipate the end of interest rate increases in the U.S. Dutch bank ING was also a strong performer in the month as it reported strong earnings for 2022 based on the rising rate environment. Also reporting strong earnings and posting good stock performance was U.S. based paper and packaging company, International Paper.

See performance and fund data Click here >

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.