

# INFLATION - NOT DEAD YET

## Markets surprised by data hiding in plain sight

**Markets** rallied in the first half of the month but then sold off in the second half leading to broadly flat equity markets. The MSCI World index finished the month with a modest -0.05% return.

Repeated evidence from data reports suggested that labor market tightening was not easing, particularly in the U.S., and that this tightening was leading to wage inflation pressures. January jobs growth in the U.S. exceeded half a million payrolls, leading to the lowest unemployment rate in 53 years.

However, the market chose to focus in the first half of the month on the U.S. Federal Reserve raising benchmark interest rates only 25 b.p.'s, a decision well signaled although below prior hikes of 50 b.p.'s. In the view of the market, this rise marked the end of the tightening cycle and markets rallied accordingly, with large positive moves by highly priced technology stocks. Signs of a slowing but still high Eurozone inflation rate and a moderating but still growing European economy led to the European Central Bank raising rates by an equally well signaled 50 b.p.'s. However, falling energy costs gave markets the hope that Europe could also thread the needle of a soft economic landing and moderate rate rises.

By the middle of February the markets attention switched back to the U.S. inflation reports, which showed inflation remaining high, leading to a market sell off. Rising wage demands in the Eurozone triggered by rebounding business activity measures also caused European markets to retreat, although the sell-off was less pronounced than for the U.S. market, with the MSCI Europe ending the month up 1.77% vs. a decline of 1.67% for the MSCI USA index.

## Value a net positive in a month of two halves

**The Portfolio** returned 2.83% in the month, ahead of the MSCI Europe Index return of 1.77%. The portfolio outperformance was to a large extent driven by the value style of the portfolio contributing positively. The MSCI Europe Value Index also outperformed with a return of 2.59% as the value factor once again seemed to benefit from higher bond yields.

Declining commodity prices weighed on stock prices within the Materials sector, which was the worst performing sector. Meanwhile, Energy was the strongest performing sector following record 2022 profits from oil majors like BP and Shell. Other strong sectors included Industrials, Financials and Communication Services.

The portfolio also benefitted from some strong stock selection. It was a good month for the European automotive industry and the French carmakers Renault and Stellantis were among the largest contributors to the portfolio's performance in February. Renault shares increased further after a strong January as it presented improving margins and a restored dividend for the first time in four years. Shares of Stellantis were also up around 15% for the month, where they reported an 18% jump in revenue, driven by strong demand for its electric vehicles. Dutch grocery store company Ahold Delhaize was also a beneficiary of a strong finish to 2022 with good fourth quarter earnings. Finally, UK based mobile telecom company Vodafone also had good performance in the month as the company announced it was exploring a sale of its business in Africa.

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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