

# 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% decline.

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 0.53% in the month, ahead of the MSCI World Index return of -0.05. The portfolio outperformance was driven by the style of the portfolio, with not only the value style exposure but also the small cap exposure of the fund contributing positively. The MSCI World Value Index returned -0.58%, below that of both the portfolio and the MSCI World. Part of the underperformance of the MSCI World Value was due to its relative sector composition, with the index having a greater exposure to energy and materials sectors and relatively less exposure to technology stocks. Relative to the MSCI World Value the portfolio outperformance was driven by both the style exposure as well as some differing sector exposures. The portfolio also benefitted from some strong stock selection.

Despite the second half sell-off in the month, Information Technology was still the strongest sector in the month after the boost it received early in the month from expectations of interest rates peaking. The cyclical Industrials sector was also a strong performer as the better than expected economic data improved the outlook for companies within that sector. Energy and Materials were the weakest sectors in the month as declining commodity prices weighed on stock prices.

U.S. industrial company Terex was a strong portfolio performer in the month as the company reported stronger earnings than expected for the fourth quarter of 2022. Dutch grocery store company Ahold Delhaize was also a beneficiary of a strong finish to 2022 with good fourth quarter earnings. 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

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.