

HIGHER RATES BEGAN TO BITE

Markets focused on weakening economy

Markets continued their search for clarity on the direction of the global economy with data points showing economic softening but equally some success on reducing inflation. In the U.S., the Purchasing Managers Index (PMI) for manufacturing was reported as 46 for June. A figure below 50 indicates contracting demand, and this was the lowest monthly PMI figure since the pandemic. U.S. jobs numbers were also weaker than expected, pointing to an economic slowdown. This raised market expectations that the U.S. rate tightening cycle would soon be at an end.

European PMI data also showed a manufacturing contraction, with data for service industries showing expansion but at a much weaker level than previous months. However, unemployment in the Eurozone remains at historically very low levels increasing concern that wage inflation was rising. In the UK, which has one of the most persistent inflation issues, data showed the economy had begun to contract, raising recession fears.

Despite the weakening economic conditions, the US Federal Reserve and the European Central bank both raised rates in July citing continued higher than desired inflation. The Bank of Japan, a laggard on raising rates relative to peers, made an adjustment to their policy of yield curve control which allows for slightly higher 10 year rates, a first step towards tightening. Markets shrugged off the indicators of economic weakness and rose during July as expectations grew that the tightening cycle, at least within the U.S. and possibly the Eurozone, was coming to an end. The MSCI World rose by 2.28% with very little disparity in performance between different geographical regions.

Value looked through near term gloom

The Portfolio returned 2.09% in the month, slightly below the MSCI World return of 2.28%. The fund's value investment style was a positive contributor to performance; however, this was more than offset by some slightly weaker stock selection as well as the sector allocation of the fund. In particular, the lack of fossil fuel producers in the fund impacted performance as Energy was the highest returning sector in the market. This sector impact was even more prevalent when compared to MSCI World Value. The MSCI World Value index returned 2.75% in the month, benefitting both from its higher exposure to sectors such as Energy than the MSCI World, as well as the value style. Cyclical sectors were amongst the strongest sectors in the market. Energy, Materials and Industrials were all strong as the market looked through short term economic headwinds to the longer term potential of a declining rate environment. Financials were also strong performers led by banks. Regional banks in the U.S. were the best performing sub sector of financials as they showed earnings resilience after the banking crisis in March. More defensive sectors such as Health Care, Consumer Staples and Utilities were amongst the weaker performing sectors in the market. Stock selection was mixed in July as companies began to report earnings for the first half of the year. US regional bank Citizens Financial Group was a strong performer after reporting good earnings and lower than feared credit losses. U.S. retailer American Eagle also performed well as U.S. consumer spending remained robust despite higher rates and a weaker economy. UK packaging manufacturer DS Smith was also a strong performer as commodity prices for packaging products appeared to have bottomed.

See performance and fund data

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Strategy

Ethical 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. Ethix SRI Advisors performs an unbiased screening to ensure that only ethically sound companies are included in the portfolio.

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