

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 U.S. 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, adjusted 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 ending. 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 2.58% in the month, ahead of the MSCI Europe return of 1.99%. The fund's value investment style accounted for part of the outperformance as the value style performed well in July. This style performance was also shown by the performance of the MSCI Europe Value index, which returned 3.31% in the month. The fund's underperformance relative to the MSCI Europe Value mostly due to negative contribution from security selection.

Cyclical sectors were amongst the strongest sectors in the market during the month. Energy and Materials were strong, as the market looked through short term economic headwinds. Financials were also strong performers in the month led by banks, but the Real Estate was the biggest gainer, as the rate sensitive sector enjoyed new hopes that the rate-hike cycle is reaching an end. More defensive sectors, such as Health Care, Consumer Staples and Utilities, were amongst the weaker performing sectors. Stock selection was negative in as companies began to report earnings for the first half of the year. Among the largest detractors were Eurazeo and Metso. French investment group Eurazeo presented numbers in line with expectations but a slowdown in fundraising seemed to disappoint investors. Similarly, Finnish industrial company Metso witnessed a negative reaction, as it lost more than 6% of its market value when it reported disappointing order intake although reported earnings were pretty much in line with expectations. In spite of overall negative contribution, there were quite a few positive earnings reports within the portfolio. Automaker Stellantis was for example a positive contributor after it gained 16% during the month thanks to a good report with better than expected earnings and a confident outlook for the rest of the year.

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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