

GAINING ECONOMIC GROWTH

Markets. The CLI indicators for the G20 economies have been in an expansion phase since the end of August, indicating that the economies have gained economic momentum. However, the trend is uneven and fragile due to an increase in interest rates, with a 100 basis point increase by the Fed and a 200 basis point increase by the ECB this year. To ensure less capacity in the labor market, central banks are maintaining restrictive monetary conditions. This creates unfavorable conditions for a potential tactical expansion of a more sustainable nature.

Due to the economic momentum, the financial market realized a return pattern in the third quarter of 2023 characterized by higher returns on risk-free assets compared to risky assets. It is worth noting the strong quarter for the U.S. dollar, especially in relation to the major currency crosses, including EUR and DKK.

The expansion of economic momentum in the G20 economies is expected to level off during the first half of 2024. The strategic outlook is anticipated to shift from positive to negative. After nearly 14 years of growth, the labor market is very tight, which the U.S. central bank and other central banks aim to address. They will do so through interest rate hikes and quantitative tightening to curb a potential wage-price spiral. Overall, this sets the stage for a return hierarchy at the end of this year and the first half of 2024, where returns on Danish government and mortgage bonds are expected to outperform returns on stocks and corporate bonds.

The Portfolio. After accounting for expenses, the fund generated a modest return of -1.3% during the third quarter, falling below the benchmark set for the fund. The benchmark given by MSCI World All Countries index yielded a return of -0.5% after having shown a 3% increase in mid-September.

The fund's underperformance was predominantly driven by the overweight to Danish equities and the underperformance in sustainable equities. Although the Danish pool yielded a return of -4.9%, lagging the fund's benchmark, it surpassed its Danish regional benchmark by 2 percentage points.

The sustainable equity pool failed to meet the fund's benchmark, experiencing an underperformance of 1.5%-points, primarily driven by skepticism about the future growth prospects for AI suppliers. The Healthcare sector, including Novo Nordisk and United Health contributed positively to the performance of the pool.

The Value equity pool was a positive contributor with a return of 0.9% outperforming both the benchmark of the fund and its own reference benchmark. The value style was a key determinant of the fund's outperformance, with sector allocation being a more minor positive contributor. Against the MSCI World Value index, the pool benefitted from having a larger exposure to the value factor. However, this was offset by some negative sector selection, notably an overweight to Energy which was the strongest performing market sector in the quarter.

See performance and fund data

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Strategy

Equitas invests in a global portfolio comprised exclusively of shares from the mature markets compared with the current prospectus. The goal is to optimise the relationship between risk and return by exploiting documented market factors such as value, momentum and size.

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