Fund report, September 2023
Global Value
Equities

Sparinvest

REALITY HIT MARKET ON RATES

The circus rolled back into town

Markets declined in the month as the reality dawned that central banks intended to keep rates at higher levels for longer. The MSCI World index declined by 1.91% in the month.

In the U.S. the Federal Reserve stressed a commitment to higher rates. This commitment was supported by stronger than anticipated economic data, notably on unemployment levels. The Federal Reserve statement led to the realization in the market that rates would remain high, and this led to a market sell-off. Within Europe, the European Central Bank raised rates to 4% in the month. Although markets expected this to be the last rate rise in this cycle, the ECB also raised its outlook for Eurozone inflation this year and next leading to an increased belief that European rates would also remain high for longer than expected.

With inflation the focus, the rising oil price was a concern for markets. Brent crude prices rose from $86 per barrel at the beginning of the month to over $95 per barrel by month end. This rise in prices, despite economic weakness from significant oil importers such as China, raised the specter of inflation.

Towards the end of the month, ever present political dysfunction in the U.S. once more threatened a government shut down by failure to pass a budget. This uncertainty led to further market sell offs in the final days of the month.
Germany and France were amongst the weakest markets as concerns grew over the strength of their domestic economies. The UK was one of the few major markets to rise in the month due to its exposure to energy companies that benefited from the rising oil price.

Higher rate outlook benefited the value style

The Portfolio declined by 0.33% in the month, outperforming the MSCI World index which declined by 1.91% during September. The value style was a key determinant of performance in the month as the higher rate outlook for the market impacted more highly priced growth stocks. The MSCI World Value returned -0.38% in the month, ahead of the MSCI World index but behind the portfolio. The outperformance of the fund against the MSCI World index was due largely to the value style of the fund, although the portfolio did benefit from positive stock selection in the month. Against the MSCI World Value index, the modest outperformance of the portfolio was due to strong stock selection, partially offset by the index having some non-value style exposures that improved its relative performance.

Energy was one of the best performing sectors in the market during the month, driven by the rising oil price. Financials were also modestly positive as the higher rate outlook led to rising expectations for bank earnings in the future. Information Technology and Consumer Discretionary were amongst the weakest market sectors, reflecting the concentration in these sectors of a small number of highly priced growth stocks. Although the value style was the dominant source of outperformance during the month against MSCI World, there was also some positive stock selection. Japanese automation company Toyota Industries was a strong performer in the month as market sentiment improved over demand for its material handling business. CVS, a U.S. healthcare company, was also a strong performer as analysts identified the company as undervalued relative to its prospects.

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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.

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