Fund report, Q3 2023
Minimum EUR
Blend Funds

Sparinvest

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 return of -0.1% during the third quarter, falling slightly below the benchmark set for the fund.

Throughout the third quarter, the performance of global shares was subdued. The MSCI World All Countries index experienced a return of -0.5%, after having shown a 3% increase in mid-September. The equity component of the fund, however, fared slightly worse, with a return of -0.8%, lagging the benchmark for equity investments. The main reason for this underperformance can be attributed to the Danish equity and Sustainable equity pools, which diverged from the performance of the global stock index over the course of the quarter.

All fixed income categories, excluding European bonds, demonstrated positive relative returns. This positive contribution to the relative return was widespread, primarily driven by high-yield and investment-grade bonds. In terms of absolute performance, the standout was the short-dated high yield fixed income pool, achieving a return of 1.8%. On the contrary, the Emerging Market pool experienced a loss of 2.1%.

Convertible bonds yielded a return of -2.6%, marginally surpassing their comparison benchmark. Private equity demonstrated a return of 0,9% while infrastructure lost 0.8% due to an accounting write-down in one of the underlying projects.

Strategy

Minimum is targeted at investors with a short investment horizon and/or low risk tolerance. The fund has a well-diversified exposure to equities, mortgage credit bonds, developed market treasury bonds, emerging market treasury bonds, corporate bonds and cash. The equities exposure is tilted to benefit from the value, small cap and momentum factors, and the exposure to corporate bonds is sought to be obtained through small issuers, low net debt and strong asset backing. For treasury and mortgage credit bonds, the strategy is to maintain a constant portfolio duration within a tight range. The overall exposure to the different asset classes is strategic and no attempt is made to time the market. The target equity exposure is 25%, but a deviation of +/- 5% is allowed before the portfolio is rebalanced.