

# MARKETS TUMBLED AS RISKS ROSE

## Geopolitical fears drove equities lower

**Markets** declined during the month as a series of geopolitical crises and macroeconomic concerns raised fears of a broader contagion. The MSCI World declined by 2.74% in the month, with the selloff accelerating during the month as the security situation in the Middle East deteriorated. Compounding the fears of the economic fallout from a broader regional conflagration in the Middle East, central bankers including the Federal Reserve, European Central Bank and the Bank of England chose to keep interest rates at their current levels, further dampening market expectations that rates would soon begin to decline. The Bank of Japan further relaxed its policy of yield curve control, leading to expectations of further monetary tightening in that country.

Europe and Japan had particularly weak market returns, with European equity markets impacted by weak economic growth in Germany and Japanese markets responding to the potential for monetary policy tightening. The U.S. market was a relatively stronger performer, whilst still declining in the month, as the U.S. reported a 4.9% annual GDP growth for the third quarter, an acceleration from the second quarter, defying fears of recession.

Despite the rapidly deteriorating situation in the Middle East raising fears over supply, oil prices fell during the month as the potential supply shock was offset by declining expectations for the global economy. Interest rates rose over the month in the U.S. with treasuries across all maturities rising in response to better-than-expected economic performance. In Europe, medium term maturity German bund yields fell as economic concern grew, however longer dated yields rose.

## 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.

## Negative selection from a handful of stocks

**The Portfolio** declined by 5.50% in month which was more than the MSCI Europe Index decline of 3.57%. The underperformance of the fund was influenced by the fund style, with the value style underperforming in the month. The MSCI Europe Value index declined 3.93% in the month illustrating the weakness of the value style. Additionally, small cap stocks, which the fund has some exposure to, also struggled in the month. Meanwhile, part of the underperformance of the portfolio against both MSCI Europe and MSCI Europe Value came from negative stock selection.

Almost all market sectors declined in the month, with cyclically sensitive sectors like Consumer Discretionary and Industrials among the worst performing sectors due to concerns about the health of the European consumer. Information Technology and Energy were relatively resilient and only the safe heaven Utilities sector managed to post a positive return. In this environment the fund suffered from a slightly more cyclically oriented exposure than its benchmark.

Stock selection was a detractor as a few companies released disappointing numbers for the quarter. Among the largest detractors were the Finnish mining equipment maker Metso who posted lower than expected order intake and French drugmaker Sanofi, where good news about a plan to spin off its consumer health division was overshadowed by a profit warning. Although stock selection was a detractor to performance this month, there were still several holdings that had good relative performance. One example was the French dairy company Danone who performed well in the month as the company increased its guidance for sales for the year.

See performance and fund data

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