Fund report, Oct. 2023
Global Value
Equities

Sparinvest

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 US market was a relatively stronger performer, whilst still declining in the month, as the US 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.

Value struggled against sector headwinds

The Portfolio declined by 5.32% in month, as compared to the MSCI World decline of 2.74%. The underperformance of the fund was attributable to the fund style, with the value style significantly underperforming in the month. Additionally, small cap stocks, which the fund has some exposure to, also struggled in the month. The MSCI World Value index returned -3.26% in the month, with the underperformance against the MSCI World index illustrating the weakness of the value style. The Value index, however, did benefit from some positive industry selection which partially offset the poor value style performance. Additionally, part of the underperformance of the portfolio against both the MSCI World and the MSCI World Value came from negative stock selection, although part of that negative selection came from large benchmark holdings not held by the fund, such as Microsoft.

Almost all market sectors declined in the month, with the cyclically sensitive Consumer Discretionary sector down the most. Energy and Industrials were also significant decliners. Information Technology and Consumer Staples sectors were the strongest sectors on a relative basis, with only modest declines during the month.

Although stock selection was a detractor to performance for the fund against the MSCI World, there were still several holdings that had good relative performance. The U.S. retailer GAP had strong performance in the month as market expectations grew that new management were improving the underlying operations of the business. French dairy company Danone also performed well in the month as the company increased its guidance for sales for the year. US biotech company Gilead had strong performance as a competitor announced data on a potential new drug that did not show significant improvement over the company's products.

See performance and fund data Click here >

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.