

# LOWER YIELDS SUPPORTED EQUITIES

## Cooling inflation and rallying markets

**Markets** recorded a very bullish November as moderating inflation fueled hopes that interest rates peaked. The MSCI World Index gained 5.96% in euros and almost 10% in USD and almost regained the summer losses. Although the so-called 'Magnificent 7' stocks outperformed again, it was a broad-based rally where cyclical sectors outperformed.

The Federal Reserve (Fed) left interest rates unchanged for the second consecutive meeting, and seemed to suggest that more rate hikes are not likely. Macroeconomic data seems to indicate tentative signs of economic moderation in the U.S. Jobless claims rose modestly, while retail sales slipped, and ISM manufacturing was unchanged and remained in contraction. Together with cooler than expected inflation this seems to have convinced investors that the Fed is done hiking and will soon turn to cutting rates.

All major regional indices posted strong returns. U.S. markets were boosted by likely end of the Fed tightening, but also a better-than-expected earnings season. European stocks were also supported by cooling inflation in the Eurozone and therefore hopes that rates could soon be cut. Despite somewhat disappointing GDP data and relatively weak domestic demand for the third quarter, strong corporate earnings positive momentum in companies disclosing plans for improving corporate valuations helped lift Japanese shares.

Despite resilient economic data and the ongoing conflict in the Middle East, prices for oil were modestly lower in the month due to an increase in U.S. supply and uncertainty over OPEC+ production quotas. Treasury yields tumbled for the first time since spring as investors reacted to the likely end of central bank tightening, on both the short and the long end of the curve. Yields on 10-year treasuries fell more than 50 basis points.

## Growth stocks outperformed value

**The Portfolio** gained by 6.08% compared to the MSCI Europe increase of 6.44%. The underperformance of the fund was predominantly attributable to the fund style, with the value style underperforming in the month. The MSCI Europe Value index returned 5.27% in the month, with the underperformance against the MSCI World index illustrating the weakness of the value style. Some of the underperformance of the portfolio against the MSCI Europe Index came from negative country allocation, where the fund suffered from being underweight in outperforming Swedish and Spanish shares. This was partly offset by the positive impact of sector allocation as well as selection. Compared with the MSCI Europe Value Index positive attribution from sector allocation, less Energy exposure in particular, and positive stock selection resulted in outperformance.

10 out of the 11 market sectors ended the month in positive territory with a rate sensitive sector such as Real Estate and economically sensitive sectors like Consumer Discretionary and Industrials were the best performing sectors. Returns in more defensive sectors like Consumer Staples and Health Care were more muted, while Energy was the only sector in negative territory, as the sector followed a modest decline in the oil price.

Among the largest contributors was the German healthcare group Fresenius, which had been a meaningful detractor in the October. A strong Q3 report with earnings improvement through cost savings and positive messages on debt reduction in the beginning of the month led to a monthly gain of about 20%. Another strong contributor to outperformance was the Swiss banking giant, UBS, whose shares were up 17% in the month. The Q3 report was not particularly strong but faster than expected cost cutting and good progress in the merger with Credit Suisse seemed to please investors.

See performance and fund data

[Click here >](#)

## 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.

This material does not constitute individual investment advice and cannot form the basis for a decision to buy or sell (or an omission thereof) of investment certificates. The material has been prepared for information purposes only and investors are encouraged to seek necessary professional advice before buying or selling investment certificates. Sparinvest does not undertake any responsibility for the advice given and actions taken or not taken in respect of this material. The mentioned sub-fund is part of Sparinvest SICAV, a Luxembourg-based, open-ended investment company. Investors are urged to read the prospectus, the key investor information document and the current annual / semi-annual report of Sparinvest SICAV prior to investing. The documents are available at [sparinvest.lu](http://sparinvest.lu). There are always risks involved when investing and it is stressed that past performance or past return cannot be considered as a guarantee for future performance or return. Investors may not get back the full amount invested. Sparinvest makes reservations for possible typing errors, calculation errors and any other errors in the material.