FED SPARKED 'EVERYTHING RALLY'

Equities finished the year close to all-time highs

Markets capped a strong year with positive returns during December. The MSCI World rose 3.62% in the month, leaving the return for 2023 overall at 19.60%

Fittingly, for a market that spent the entire year focused on central bank interest rate policy, the catalyst for the market rally in December was the final Federal Reserve (Fed) meeting of the year. Fed chair, Jerome Powell, reflecting over improving inflation figures and signs of a weakening U.S. economy, called the peak for U.S. interest rates and opened the door to rate declines in 2024.

Equity markets in both the U.S. and in Europe responded positively to Powell's comments. The MSCI USA index return of 3.39% in the month, was more than matched by the MSCI Europe return of 3.71%. European equities were strong despite ECB chair Christine Lagarde's casting doubt on whether European rates would begin to decline soon. Despite lagging Europe in December, U.S. markets were the clear winner for the year, with the MSCI USA rising 22.21% in 2023 compared to 15.83% for the MSCI Europe. Much of the outperformance of the U.S. versus Europe is traced back to the AI fueled 'Magnificent 7' rally centered around the second quarter, as seven tech equities, all from the U.S., raced ahead of all other equities and accounted for a significant portion of market performance.

Bonds had their own rally during the month, with long dated U.S. Treasuries seeing yield declines of 40–50 basis points, and long dated German Bund yields falling by 30–40 basis points. Commodities were the only damp squib during the month as fears over the global economy negatively impacted oil prices.

Value and Small-Cap's show strength

The Portfolio returned 4.58% in the month, ahead of the MSCI Europe return of 3.71%. The outperformance of the portfolio was largely due to the fund style, with the value style outperforming growth but with the small-cap tilt of the portfolio also aiding returns along with positive stock selection. The portfolio also outperformed the 3.44% return of the MSCI Europe Value index, with the fund's purer value style and the small-cap tilt also contributing positively to the outperformance. For the full year the portfolio returns of 15.58% underperformed MSCI Europe's return of 15.83% as a negative contribution from stock selection and industry allocation combined dwarfed a positive contribution from the portfolio's inherent value style. However, the portfolio performed in line with the MSCI Europe Value return of 15.60% for the year.
Real Estate was the strongest performing sector in the month, reflecting the highly rate sensitive nature of underlying assets in that sector. However, economically sensitive sectors such as Industrials and Materials also had a strong performance in the month. Energy was the only sector that declined during December, reflecting the declines in oil. For the full year it was the rate-sensitive and AI-exposed IT sector that saw the biggest gains of more than 30%, while the more defensive Consumer Staples sector barely ended the year in positive. The fund experienced some strong individual stock performance in the month. A large handful of companies from cyclical sectors like Industrials and Materials were among the best performing stocks as well as the largest positive contributors. Withing Industrials, the Italian electrical infrastructure company Prysmian was for example a strong performer after announcing of a new organizational structure and a reshape of the leadership team.

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.