Fund report, Q4 2023
Equitas
Equities

Sparinvest

GAINING ECONOMIC MOMENTUM DESPITE FRAGILE CONDITIONS

Markets. The CLI indicator for the G20 economies has been in the 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 from the Federal Reserve (Fed) and a 200-basis point increase from the European Central Bank (ECB) in 2023. To ensure more available 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. Recently, the market was confirmed that a soon-to-come monetary easing cycle may be underway in the first half of 2024, affecting broadly based financial conditions downward, which could open the possibility for positive effects on confidence indicators and thus a new tactical growth phase.

Based on the economic momentum, the financial market in the fourth quarter of 2024 realized a return pattern characterized by higher returns for risky assets compared to risk-free assets.

The expansion of economic momentum in the G20 economies is expected to flatten out during the first half of 2024. The strategic condition is expected to shift from positive to negative. After nearly 14 years of growth, the labor market is "overheated", which the U.S. central bank and other central banks aim to address. They will do this through interest rate hikes and quantitative tightening to halt the wage-price spiral before it gets out of control. Overall, this sets the stage for a return hierarchy in the first half of 2024, where the return on Danish government and mortgage bonds is expected to outperform the return on stocks and corporate bonds. In the second half of 2024, there is an opportunity for a turning point with a more growth trajectory and a return hierarchy that shifts character in favor of risky assets.

The Portfolio. After accounting for expenses, the fund generated a modest return of 5.7% during the third quarter, falling below the benchmark set for the fund. The benchmark, MSCI World All Countries, yielded a return of 6.4% after having shown a 4% decrease at the end of October.
Declining inflation figures in both Europe and the United States raised hopes that the current interest rate cycle had peaked. These hopes that rates had peaked were supported by a change in central bank tone, notably by the Fed, leading to a significant market rally in December as markets began to factor in rate declines during the first half of 2024.

Headwind to the value factor and emerging markets dragged the relative performance down while the sustainable equity pool outperformed due to the outperformance of the growth factor. Danish equites outperformed its regional benchmark but lagged the performance of the fund.

The underperformance of the Value Pool was mainly observed during the month of October, due to the fund’s value style. The value style was a significant headwind to performance in October as economic weakness weighed on value stocks. Despite the challenges, the MSCI World Value Index managed to achieve a return of 4.8% for the quarter, marginally outpacing the performance of the Value Pool. The portfolio's relative underperformance against the value index was influenced by some modestly negative stock selections.
The Sustainable equity pool outperformed the fund's benchmark, 1.5%-points, primarily driven by strong performance in Vestas, S&P Global, Nasdaq, and Taiwan Semiconductor Co. At the opposite end of the return spectrum were the stocks of Nestle and AON.

The Danish equity pool had a strong quarter absolute as well as relative. The performance was positively influenced by the price development of Zealand Pharma, Chr. Hansen Holding, ISS, and Danske Bank.

See performance and fund data Click here >

Strategy
Equitas invests in a global portfolio comprised exclusively of shares from the mature markets compared with the current prospectus. The goal is to optimise the relationship between risk and return by exploiting documented market factors such as value, momentum and size.