

NEW YEAR, SAME OLD RATE FOCUS

Equities started the year with rate driven rally

Markets had a strong start to 2024, with the MSCI World index returning 2.91% in the month. Despite reports for December that showed inflation higher than expected in both the U.S. and Eurozone, markets clung to hopes that U.S. rate cuts would begin in March. This belief in U.S. rate cuts led U.S. technology stocks to perform well in the month. However, any expectations that 2024 would begin with a sequel to 2023's biggest hit, 'The Magnificent 7', were dashed as several of those stocks reported weak results and outlooks, causing their stocks to decline.

U.S. markets were strong, driven by the rally in technology stocks, leading the MSCI USA index to a return of 3.25%. However, Japan was the standout major market, with the MSCI Japan returning 6.39% in the month. Japanese market performance was bolstered by the Bank of Japan which continued its loose monetary policy, while signaling tightening later in the year. Additionally growing signs of a commitment to corporate governance reform within Japan helped markets.

European equities were the laggard, as the MSCI Europe index returned only 1.57% in the month. European markets were dragged down by weak returns in major markets such as Germany and the UK, as markets placed more credence in the European Central Bank and Bank of England's commitment to higher rates to quash inflation than the equivalent commitment from the U.S. Federal Reserve.

Short dated U.S. bonds rallied during the month, with yield declines showing bond market expectations mirrored equity markets. German government bonds however were largely unchanged at the short end of the curve, although longer dated bonds sold off.

The value style struggled against growth

The Portfolio returned 1.46% in the month, behind the MSCI World return of 2.91%. The underperformance of the portfolio was largely due to the fund style, with the value style underperforming growth during the month. The underperformance of the value style was reflected by the performance of the MSCI World Value index, which returned 1.96% in the month, behind the return of the MSCI World but ahead of the portfolio return. The portfolio underperformed the MSCI World Value index largely due to non-value related style exposures of the index relative to the portfolio. In particular, small-cap stocks, a strong performing group in the final quarter of 2023, underperformed in the month, and the modest small-cap tilt of the portfolio meant that this small-cap underperformance impacted portfolio relative returns.

Communication Services and Information Technology were the best performing sectors in the month, as both sectors contain significant numbers of highly valued growth stocks. Materials was the weakest sector in the month as concerns over the economy in China remained a headwind to major commodity prices. Despite selection not being a significant source of relative performance in the month, the fund did experience some strong individual stock performance. U.S. technology company IBM performed well in the month as the company reported strong earnings and released positive guidance for the coming year. Japanese bank Mitsubishi UFJ was also a strong performer in the month due to the expectation of monetary tightening in Japan later in the year. U.S. insurer Travelers also performed well in the month as the company reported earnings above analyst expectations.

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Strategy

Ethical 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. Ethix SRI Advisors performs an unbiased screening to ensure that only ethically sound companies are included in the portfolio.

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