

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 United Kingdom, 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.

Value struggled against growth

The Portfolio returned 0.18% in the month, which was less than the MSCI Europe return of 1.57%. The underperformance of the portfolio was not surprising when compared against the performance of the MSCI Europe Value index, which returned 0.08%. This suggests that the value style had a weak month, but it was rather a few sectors and individual names that caused the underperformance for both the fund and the value index.

Information Technology was the best performing sector with robust gains for both semiconductor equipment makers and software companies. By contrast, Materials, Energy, Utilities and Real Estate were the weakest sectors and ended the month with negative returns. The sector allocation was a modest detractor for the fund (as well as for the value index) as it had less exposure to the higher priced IT sector.

Selection was a meaningful source of relative underperformance in the month as three large benchmark constituents not held by the fund saw strong double-digit gains. In fact, ASML, Novo Nordisk and SAP explained more than 1% of the 1.57% market performance as they seemed to continue the trend from last year. Despite the underperformance there were still well performing stocks in the portfolio. The Finnish telecommunications equipment maker Nokia, a detractor in 2023, was up more than 10% on the day of reporting disappointing Q4 results, but remarks about "green shoots on the horizon" seemed to push the stock higher. Another positive contributor to performance was the British biopharma company GSK, which presented its fourth quarter results on the last day of the month, where they beat market expect, and raised its guidance for this year.

See performance and fund data

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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.