Fund report, February 2024
European Value
Equities

Sparinvest

EQUITIES CONTINUED THE CHARGE

Some stocks more magnificent than others

Markets followed a strong start to the year with a further rally in February. The MSCI World index rose by 4.63% in the month. Strong U.S. economic data and continued fascination with all things AI led stocks higher despite disappearing market expectations of imminent rate cuts by the major central banks.

U.S. equities once again led global markets, with the MSCI USA index rising by 5.72%. The S&P 500, a key domestic market index of U.S. stocks hit a record high in the month. Japan also continued its strong run of market returns, with February marking the point that the domestic Nikkei 225 index finally made a new high, 34 years after the prior peak.

As in much of 2023, U.S. stocks, were driven by a small handful of technology focused stocks. However, membership of the Magnificent 7 group of stocks that drove market performance last year has been dwindling. Since the beginning of the year, stock performance for founder members of the 7; Apple, Alphabet and Tesla, has been disappointing, whereas notably NVIDIA has charged on, rising 65% in the first two months of 2024 alone.

Europe was a laggard in the month, with the MSCI Europe only rising by 1.94% Despite moderating inflation and wage pressures as well as declining forecasts for European economic growth, European Central Bank president Christine Lagarde refused to be drawn on the potential for rate declines, leading to a more subdued equity market in the month. The MSCI Europe index was also dragged down by poor performance in the UK, which is struggling with recession and political uncertainty related to the forthcoming general election, which must be held within the next 11 months.

Value underperformed in a growth market

The Portfolio returned 1.18% in the month, behind the MSCI Europe return of 1.94%. The underperformance of the portfolio was predominantly due to the fund style, with the value style underperforming growth during the month and the MSCI Europe Value index returned -0.19%. The outperformance of the portfolio relative to the MSCI Europe Value index was largely due to the fund's sector exposures.

Consumer Discretionary, Industrials and Information Technology were the best performing market sectors while defensive sectors underperformed. The rate sensitive Utility and Real Estate sectors lost more than 5 percent as they suffer from the expectations that interest rates will remain higher for longer. The fund's lack of exposure to the two worst performing sectors and a more cyclical bias led to a meaningful tailwind compared to both indices.

The portfolio had many individual holdings that performed well on the back of decent Q4 reports, including automotive companies Renault and Stellantis. Despite a challenging European Value market, they both reported results that were better than anticipated, and Renault raised its dividend meaningfully, while Stellantis announced it will launch a share buyback program worth 3 billion euros. British packaging company DS Smith who offers sustainable packing solutions was another strong performer. The company's shares gained after the company said it had received a preliminary expression of interest from its rival Mondi regarding a merger.

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.