Sparinvest

FED TO MARKET: BE PATIENT!

Stocks continued rally as Fed stays the course

Markets continued their strong start to the year with further positive performance in the month. The MSCI World Index rose by 3.42% in the month, making the first quarter return for the index 11.37%.

U.S. equities achieved further record levels in the month as markets focused on language from the Federal Reserve (Fed) that continued to support the view that the U.S. would enter a rate cutting cycle, possibly beginning as soon as this summer. The supportive language from the Fed came even as data continued to show a U.S. economy that remains strong, with inflation remaining stubbornly above target levels.

European equities outperformed U.S. markets in the month, with the MSCI Europe index returning 3.94% compared to 3.35% for the MSCI U.S. index. Despite an underlying economy much weaker than the U.S., European markets were buoyed by figures that showed European inflation close to target, potentially allowing the ECB to cut rates even before the Federal Reserve in the U.S. The Swiss National Bank fired the starting gun on this rate cut cycle by cutting rates during the month, however the modest spike in Swiss equities that followed was offset by Swiss Franc weakness versus the Euro, leaving Switzerland as one of the weaker performing European markets. The UK was one of the strongest market performers in the months as the market, aided by strong performance in sectors such as Energy, Materials and Financials that dominate the UK market.

China's economy showed nascent signs of stabilization which, as well as supporting global equities, provided a boost to commodities. Oil prices, as well as prices for metals such as aluminum and copper, rallied in the month on rising expectations for the global economy.

Value recovered as markets breadth improves

The Portfolio returned 6.84% in the month, while the MSCI Europe Index was up 3.94% and the MSCI Europe Value Index gained 4.98%. The inherent value style exposure of the funds was a positive contributor to the outperformance against MSCI Europe. However, positive stock selection was the most meaningful driver of the strong relative performance against both indices.

Real Estate, Financials, Energy and Materials were the best performing market sectors, with Energy and Materials benefitting from rising commodity prices and all these sectors benefitting from an expectation of a stronger global economy. The Consumer Discretionary and Information Technology sectors posted only modest gains after having driven market performance in the prior two months.

The portfolio had many individual holdings with strong performance. The share price of the French automotive manufacturer Renault continued the trend from February and rose more than 20%. Market participants seem to reward the company for overhauling its product lineup, restoring profit, and loosening the ties with its long-time partner Nissan. Renault sold a stake in Nissan back in December and at the end of the month it announced the plan of selling another 2.5% stake. UK packaging company DS Smith performed well after the company received a second takeover bid suggesting the potential for a bidding war. Dutch bank ING also had strong performance in the month as expectations rose for a return of excess capital to shareholders. Finally, Daimler Truck holding posted better than expected 2023 earnings which together with a raised dividend send the share prices up 13% on the day of the release.

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.