

MARKET TO FED: HURRY UP!

Stocks declined as Fed cautions over cuts

Markets declined in the month as concerns over elevated interest rates in the U.S., rising tensions in the Middle East and fading hopes of an economic improvement in China all weighed on stocks. The MSCI World ended the month with a decline of 2.75%, the worst performance since the final month of 2022.

In the U.S., Federal Reserve chair Jay Powell, recognizing that inflation was stickier than expected, recalibrated expectations for near term interest rate declines. This recalibration pushed market expectations for a first-rate decline to later in the year, and even raised the small possibility of the need for a further rate rise. This change in tone led to a significant decline in U.S. equities, leaving the U.S. market as the worst performing major market in the month, with the MSCI USA index declining by 3.19%.

Although broader global economic and geopolitical concerns weighed on all markets, European markets were relative outperformers, with the MSCI Europe index declining by only 0.91%. Although markets such as Germany and France were weaker than the overall European index, as economic weakness weighed on equities, the standout performer was the United Kingdom. The UK stock market ended the month with strong positive returns driven by the sector composition of that market, which skews heavily towards commodity companies, a strong performing part of the global market.

U.S. interest rates rose in the month in response to changing language from the Federal Reserve, however the U.S. yield curve remains inverted, signally market expectations for an economic slowdown.

Stock volatilities rose as markets declined

The Portfolio lost 0.02% in the month, ahead of the MSCI Europe Index loss of 0.91%. The value segment of the market outperformed on a relative basis and the MSCI Europe Value index gained 0.86%. This gave some style tailwind to the fund, but the fund was not able to keep up with the value index, because of a slightly more cyclical sector orientation and some negative contribution from stock selection.

There was a bit of a sector rotation and defensive sectors such as Health Care, Consumer Staples and Utilities generally outperformed, but Energy was the best performing sector. The price of crude oil ended the month roughly where it started but continued geopolitical turmoil and economic resilience seemed to support energy stocks. The cyclically sensitive Consumer Discretionary and IT sectors were down the most. The fund's relative underweight in Energy and a more cyclical bias overall (more Industrials and Consumer Discretionary) led to a meaningful headwind compared to the value index.

A handful of underperforming names, all from relatively cyclical sectors, resulted in a negative contribution from stock selection. The largest negative contributor was the automotive company Stellantis whose shares dropped more than 10% on the final day of the month as it reported a larger than expected drop in revenue and deliveries as it is about to release several new models. However, there were also positive contributions from individual holdings. The largest positive contributor was Philips, a Dutch based medical technology company, who benefitted from a lower than feared litigation settlement in the U.S.

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.

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