

AND THEN THERE WAS ONE

One market and one stock dominated June

Markets gained again in the month with the MSCI World Index rising by 3.35 percent. However, amongst major markets, the U.S. was the only market to post significant gains. Within the U.S., market returns were increasingly dominated by artificial intelligence poster child, NVIDIA. Depending on which domestic market index is used, NVIDIA accounts for 30-40 percent of U.S. market returns, a level of market concentration unprecedented in the past two decades. NVIDIA was briefly the most valuable publicly listed company in the world, before a modest sell-off at the end of the month. European markets were slightly down overall, however French equities declined significantly in the face of snap elections for the National Assembly, called by President Macron after opposition parties performed well in elections to the European Parliament. The decline in French equities were caused by the subsequent political uncertainty, with markets concerned by the threat of an opposition led Assembly undoing many of President Macron's pro-market reforms.

European and U.S. bond markets were largely unmoved by the political uncertainty. Early in the month the ECB reduced rates by 25 bp in line with market expectations. Market expectations for U.S. rates to receive their first cut in this cycle from the Federal Reserve are now focused on the September meeting, as U.S. inflation figures declined further towards the target 2 percent level.

Commodities were mixed in the month with oil prices rising, driven by output cuts from the OPEC+ cartel of oil producing nations. However, key metals such as aluminum and copper declined in the month, reflecting concerns over economic weakness in China and Europe, as well as a potential economic softening in the U.S.

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.

Value struggled in the one stock market

The Portfolio declined by 0.35 percent in the month, well below the MSCI World Index return of 3.35 percent. The value style was a major detractor to performance in the month as value significantly underperformed growth. The underperformance of the value style was also reflected in the return of MSCI World Value index which returned 0.41 percent in the month. The weakness of the value style, however, at least partly, reflects the strength not of a broad growth style but the market dominance of NVIDIA. NVIDIA, a major weight in the indices is accounting for a significant portion of U.S. market returns, and the high valuation and high market weight of NVIDIA is a distorting factor for the market. Relative to the MSCI World Value, the portfolio underperformance was due to negative style returns due to the portfolio having a greater exposure to the value factor than the index. The underperformance was partially offset by strong stock selection in the month.

Information Technology was the strongest sector in the month, due to the strong performance of NVIDIA amongst others. Materials was the weakest sector in the market, reflecting the weakness of underlying commodities such as copper and aluminum.

Stock selection was a positive contributor to returns in the month. Notable performers included US technology company DXC Technology, whose stock price jumped after market rumors of a takeover bid for the company. Takeover rumors also benefited the stock price of U.S. household appliance manufacturer Whirlpool. Technology companies Hewlett-Packard Enterprises and Oracle were also strong performers in the month as markets reassessed positively the two companies' exposure to artificial intelligence.

See performance and fund data

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