

SELL-OFF, WHAT SELL-OFF?

Stocks eked out a gain after a sharp drop

Markets began the month with a significant sell-off as weaker than anticipated U.S. labor and manufacturing data combined to raise concerns of a recession in the U.S. with the Federal Reserve (Fed) being perceived as too slow to begin its easing cycle. This rising recession risk led to a significant sell-off in markets, focused on some of the more highly valued areas of the market such as technology as well as those stocks considered cyclically sensitive. Following the lead of the U.S., Japanese stocks had their largest one-day drop since 1987 as an unexpected rate rise from the Bank of Japan led to a strengthening of the Japanese Yen and a sharp reduction of Japanese stock prices that had performed extremely well during the first half of the year.

By the end of the first week of the month the MSCI World index had declined by almost 8%. However, as quickly as market sentiment soured, the recovery began and the MSCI World Index ended the month in positive territory, rising by 0.30%. Comments from Fed chair Jerome Powell, at the annual Jackson Hole central banker's get-together, further calmed markets as he reinforced expectations for the Fed to begin monetary easing. This pattern was followed by most major markets, with even Japanese equities, that had declined by almost 20% early in the month, ending down only 1.74% in the month.

U.S. treasuries rallied on the economic news as expectations for a September rate cut from the Fed grew.

Commodities were generally weak in the month as demand fears rose. Economically sensitive commodities such as oil and copper fell during the month.

Value struggled to keep up with market moves

The Portfolio returned 1.92% in the month, slightly above the MSCI Europe return of 1.61%. The MSCI Europe Value index returned 1.18% and performed worse than the MSCI Europe index. So, there was a meaningful negative impact from the value investment style of the fund. Furthermore, there was a negative impact from the fund having a greater exposure to smaller-capitalization stocks which also underperformed the broader market. The primary source of outperformance was stock selection, although there was also a slight positive contribution from the fund's sector allocation.

More defensive sectors such as Health Care and Consumer Staples were amongst the stronger performing sectors in the month. Economically sensitive sectors such as Energy, Materials and Industrials were among the weakest sectors as concern grew over the strength of the economy. Relative to MSCI Europe, the fund benefitted from having less exposure to the IT sector, which was the second worst performing sector.

UK pharmaceutical company, GSK, was the best performing stock as the company received approval for several new drugs. European communications equipment manufacturer Nokia was another strong performer in the month as the market speculated over potential bids for parts of the company.

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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