Fund report, March 2025
European Value
Equities

Sparinvest

HOPE CEASES TO BE A STRATEGY

Equities sold off on tariff fears

Markets suffered significant declines during March, with the MSCI World index declining by 8.01% in the month. Declines were led by U.S. equities, with the MSCI USA index falling by 9.4%.

The sell-off in equities was driven by fading hopes that the U.S. would rethink its approach to trade policy. U.S. President Donald Trump nominated April 2nd as "Liberation Day", when he would announce reciprocal tariffs on the entire world, thereby somehow liberating the U.S. from trade tyranny. Markets parsed the myriad of potential unforeseen economic impacts of these tariffs, unsure of the tolerance within the U.S. administration for economic pain. The predominant conventional view was that U.S. tariffs would be terrible for all economies, first and foremost the U.S., leading to the significant market declines.

European equities, although declining in the month, significantly outperformed the broader global market. The MSCI Europe index declined by 4.01%. German equities were amongst the best performing markets, after an announcement early in the month by Friedrich Merz, the likely next Chancellor of Germany, for large increases in spending on defense and infrastructure. Furthermore, the spending increases, funded by borrowing and thereby breaking German fiscal orthodoxy, would be pushed through during the remainder of the existing parliament.

Bonds sold off in response to the prospect of German fiscal expansion, with yields of long dated German bunds having their biggest jump in almost thirty years. The Euro also rose against the Dollar, reflecting both higher rates within Europe as well as concerns over the direction of the U.S. economy.

Value performed despite cyclical challenges

The Portfolio declined by 2.73%, which was less of a decline than the 4.01% drop in the MSCI Europe Index. The predominant driver of the outperformance of the fund was the style, with the value style outperforming growth. Geographic allocations were an additional minor positive, as the fund benefitted from an overweight to German equities, while industry allocations had was a minor detractor.

Consumer Discretionary stocks lagged the most driven mostly by declines among luxury goods and automotive stocks. IT stocks also underperformed as tech sold off globally while disappointing trial results in Novo Nordisk helped pull down the Health Care sector. Utility was the best performing sector as investors seemed to look for stability, while Energy stocks rose in tandem with a rise in the price of oil.

The MSCI Europe Value Index declined by 0.76% as it benefitted from an overweight in sectors such as Utilities, Energy and Financials. Hence, the underperformance of the fund relative to the value index was due to the fund having a slightly more cyclical orientation than the index.
The contribution from stock selection was muted, but in spite of the market declines, the portfolio did have some strong individual performers. Finnish communications equipment manufacturer Nokia outperformed its IT peers as the company completed some product launches and also signed a number of partnership agreements to roll-out its 5G infrastructure in different markets. German engine maker Deutz gained more than 30% during the month as investors expect it to benefit from the announced stimulus package and we decided to sell the stock at the end of the month.

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.