European stocks close in the red

Global markets rise despite Middle East conflict

Markets rose in June despite Israel and Iran launching direct assaults on each other. The conflict between Israel and Iran ended in a truce after the US joined Israel and engaged in a bombing campaign against Iranian nuclear facilities.

The MSCI World rose by 0.60% in the month. The US market continued its recovery from its first quarter declines, with the MSCI US index rising by 1.45%. European equities were weak in the quarter as the European Central Bank signaled it was close to the end of its easing cycle, despite economic growth in Europe remaining anemic.

The strong US market performance was despite further declines in the outlook for the US economy. With tariff related shocks still reverberating, and additional economic headwinds from a much more tightly enforced immigration policy, the US Federal Reserve faced a balancing act on interest rates between the need to support the economy and fear that inflation remained a problem. During its June meeting the Federal Reserve kept rates steady, despite the Federal Reserve chair Jerome Powell coming under considerable political pressure from US President Trump. Although rates were not reduced in the June meeting, the Fed did indicate that an easing cycle was likely to start shortly.

The US Dollar continued its downward slide against other major currencies that began at the beginning of the year. The primary beneficiary has been the Euro, with the Euro strengthening by 15% during 2025. The dollar weakness has been driven by concerns over the level of US debt, as congress debated President Trump's tax and spending bill that would significantly increase the US deficit. The dollar weakness also reflects concerns around institutions such as the Federal Reserve that were intended to be free from political influence but are being subjected to presidential pressure.

Oil had a brief rally in the month following the conflict between Iran and Israel, only to promptly give up all gains when the ceasefire was announced.

Negative selection offset by style tailwind

The Portfolio returned -0.88% in the month, which was slightly better than the -1.30% return of the MSCI Europe Index. The outperformance of the fund was due to the fund's style exposure, where the value style outperformed slightly, which could also be observed by the MSCI Europe Value Index return of -1.22%. Relative to both indices, the fund benefitted from having a small-cap bias, as small-caps outperformed the broader market.

The Energy sector had a volatile month as it moved in tandem with the oil price, but it did end the month as the best performing sector. Utilities, Industrias and IT stocks also recorded gains, while Health Care, Consurmer Discretionary and Consumer Staples were the worst performing sectors. Policy uncertainty hit some subsectors more than others, while competitive pressures and cautious consumer sentiment weighed on others. In spite of the performance dispersion, the fund's sector allocation did not have any meaningful impact on relative performance.

Stock selection was a net detractor in the month, with the biggest negative impact coming from French automaker Renault. The company which battles competitive pressures, stagnant demand and a costly EV transformation announced the departure of CEO Luca de Meo who headed the turnaround that the company has undergone in the last 5 years. On the positive side, Finnish foresty group Stora Enso contributed nicely due to strong share price reaction to an announcement of a review of its Swedish forest assets which was seen as value creative by investors as the shares gained almost 15% on the day of the announcement. The portfolio also benefitted from strong performance from a number of small cap holdings like Jungheinrich, Andriz and Bellway.

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.