Sparinvest

Tariff deals lift US equities

US markets rally despite economic fears

Uncertainty around tariffs limited market moves in the first half of July, as US President Donald Trump reiterated his intention, in the absence of any trade deals, to enforce high tariffs on all trading partners after August 1st. However, beginning with Japan, the final weeks of the month saw a flurry of trade deal announcements. Sometimes lacking much in the way of hard details, the "deals" seemed to secure lower than threatened tariff levels, in return for increased market access for US companies as well as promises on investment into the US. Following Japan, the next big deal was with the European Union, with markets generally perceiving the EU having made major concessions to achieve its deal. The tariff deals, along with the view that the US generally came off well in the negotiations, led to a rally in US stocks. US market performance was also aided by strong quarterly earnings from mega-cap technology companies such as Nvidia, Microsoft and Meta, which all shrugged off broader macro-economic concerns to post strong results.

The US market was the best performing major market in the month, with the MSCI US index returning 4.88%, compared to 3.88% for the MSCI World index. European markets had muted returns, with European industry seeing little to gain and much to lose from the tariff deal. The MSCI Europe index rose only 0.73% in the month.

Reflecting the view that the US economy would survive the tariff shocks better than other markets, the Dollar snapped its 2025 losing streak by strengthening against the Euro in the month, although it remains well below the levels at the start of the year.

At the end of the month, the US Federal Reserve defied presidential pressure and kept interest rates on hold despite apparent softening in the US economy, citing inflation concerns. The lower end of the Fed benchmark rate remains 2.25% above the benchmark rate of the ECB, which also paused its rate declines in the month.

Negative selection led to underperformance

The portfolio returned 0.17% in the month, below the 0.73% return of the MSCI Europe Index. The MSCI Europe Value Index rose by 2.53% during the month. The fund's underperformance relative to the MSCI Europe Index was primarily driven by negative stock selection, which outweighed the positive impact of a more cyclical tilt. Relative to the MSCI Europe Value Index, stock selection was also negative, with an underweight position in Financials further detracting from returns.

Energy, Financials and Industrials were the strongest performing sectors, while defensive sectors like Consumer Staples and Health Care ended the month with negative returns as market participants generally rotated into more economically sensitive sectors. IT stocks were an exception. In contrast to their US counterparts, the European IT sector ranked as the weakest performer, weighed down by disappointing quarterly results and guidance from several major European software and semiconductor companies

Finnish network equipment manufacturer Nokia was the largest detractor from performance, as the market reacted negatively to a cut in full-year guidance, largely attributed to currency headwinds and the impact of tariffs. Another significant detractor was UK housebuilder Bellway, which along with its peers came under pressure early in the month following concerns from a report suggesting potential tax increases that could slow the housing market

Despite stock selection overall, the fund did have exposure to some companies with strong performance. Banks were among the positive contributors, with Swiss UBS performing well after reporting strong earnings and also rising capital levels, lowering concerns related to the potential need for more regulatory capital.

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.