

US UNCERTAINTY WEIGHS ON MARKETS

Trump's unpredictability drives market concerns

US president Donald Trump maintained his frenetic pace of announcements and counter-announcements in August, with his attacks on respected institutions unsettling markets. At the beginning of August, the US president fired the Bureau of Labor Statistics commissioner, Erika McEntarfer, after downwards revisions to prior months employment figures, showed a softening of the US economy. After this assault on the BLS, the next focus was repeat target, the US Federal Reserve, with one governor stepping down early and renewed pressure on Fed chair Jerome Powell to cut rates. The cumulative impact of these actions was to raise market concerns that some of the pillars behind the US economy's long term outperformance would not survive this administration intact.

Markets ended the month broadly flat, with the MSCI World rising by 0.33%. However the US market declined in the month, with the MSCI US index falling by 0.33%, as the signs of a weakening economy and falling faith in respect for institutions were partially offset by a rising expectation that the Fed would reduce rates at its September meeting. European equities were relatively stronger than the US in the month, with the MSCI Europe index rising by 1.15%. Political uncertainty in France and higher than anticipated inflation in Germany negatively impacted equities in those markets, however the United Kingdom, Italy and Switzerland were all good performers. The Swiss market was a strong performer despite the country having a US tariff placed on it at significantly higher levels than that placed on the European Union.

Bond markets also demonstrated declining belief in the US, with short rates for US treasuries declining, mirroring the equity market view that a rate cut is imminent, but long rates sharply increasing suggesting that borrowing costs for the US are being impacted by the President's actions. After recovering some of its lost ground in July, the Dollar continued its decline in August, reflecting further concerns over the independence of the Federal reserve.

Value outperforms as growth stocks pause

The portfolio returned 1.98% in the month, outperforming the MSCI Europe return of 1.15%. The largest contribution to the outperformance was the style of the fund, with the value style performing well in the month. The portfolio performed in line with the MSCI Europe Value index which rose by 2.04%. Relative to MSCI Europe Value, a minor tailwind from being underweight Financials and Utilities was offset by the fund's small cap bias, as European small cap stocks generally underperformed.

Consumer Discretionary, Consumer Staples and Health Care were among the best performing sectors partially offsetting the underperformance recorded in the first half of the year. Within Consumer Discretionary, automotive stocks advanced on the back of improved sentiment surrounding a tariff agreement with the United States. In contrast, the Information Technology sector lagged as it suffered from a global sector sell-off.

Within the portfolio, German health care company Fresenius had strong performance in the month as the company reported strong quarterly earnings and raised its revenue guidance for the year. UK medical technology company Smith & Nephew was another strong contributor as the company's stock rallied thanks to a strong set of results, where strong cash flow generation allowed for the announcement of meaningfully sized share buyback program which seemed to surprise the market.

Strategy

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.

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