

# INVESTORS CAUTIOUS AS YEAR ENDS

## US equities struggle to shake valuation concerns

Markets were soft in the month as investors became increasingly concerned over the valuation of US mega-cap technology stocks that have benefitted from the artificial intelligence theme for much of the year. The MSCI World index declined by 0.38% in the month, with returns dragged down by the US which experienced a significant mid-month sell-off focused on technology stocks. In contrast, European stocks were relatively strong in the month, with the MSCI Europe rising 2.67%. Germany, the United Kingdom and Italy all performed well in December, however the standout European market in the month, as well as for the full year, was Spain, with strength in its banking sector.

For the full year, the MSCI World rose by 6.77%, recovering from a major sell-off in April triggered by the initial announcement of US tariffs, as well as persistent fears over the valuation of artificial intelligence stocks and question marks over the speed of interest rate cuts from the US Federal Reserve. European markets outperformed the US by a wide margin, with the MSCI Europe returning 19.39% for the year. European market outperformance reversed the significant underperformance of the prior two years, when Europe had lagged due to a lack of artificial intelligence related exposure.

The US Federal Reserve reduced interest rates by another 25 b.p. in December, a move that was widely anticipated. However, the path of future rate cuts looks extremely uncertain, with an unusual level of disagreement between the Fed's individual policymakers. Many policymakers argued to keep rates flat due to concerns over inflation. Other policymakers argued for steeper rate cuts to boost the economy, with these individuals cheered on by President Trump from the sidelines. Economic data during the month showed the US economy performing better than anticipated, with labour markets remaining strong. Long dated treasuries sold off slightly during the month, indicating a belief within the market that inflation is not yet under control

## Valuation concerns feed into style performance

The portfolio returned 4.10% in the month, outperforming the 2.67% return of the MSCI Europe Index. The portfolio also outperformed the MSCI Europe Value Index which returned 3.40%. Against both indices, the outperformance came from a combination of stock selection and the style exposure of the fund as the value style contributed positively to performance. Cyclical sectors performed well and Financials and Materials were the strongest performing sectors in the market during the month, with Energy, Consumer Staples and Utilities were among the weakest.

For the full year, the portfolio returned 25.29%, beating MSCI Europe (19.39%) but trailing MSCI Europe Value (30.52%). The value style of the fund was a significant positive contributor relative to MSCI Europe but also a minor positive contributor relative to the Value index. In 2025, Financials, and in particular Banks, led the gains amid higher-for-longer rates, robust capital positions, and low loan losses. AI buildout and increased government commitments to defense, energy transition, and infrastructure spending aided Industrials and Utilities. While the fund benefitted meaningfully from an overweight in Financials, an underweight in Utilities and Industrials, in particular defense stocks hurt relative returns. The Value Index surged on heavy a Financials weighting (39.2% vs 24.7% in MSCI Europe at year end) and fund underperformance relative to the value index stemmed largely from a more diversified sector allocation combined with a lack of exposure to outperforming Spanish stocks.

The portfolio's bank holdings were among the largest positive contributors in December with companies like Barclays, HSBC, Danske Bank and ING among the top 10 performers resulting in outperformance within Financials. Meanwhile, it was Swiss bank UBS that had the strongest performance due to the potential for a compromise over the Swiss authorities' requirement for higher capital levels at the bank. There was also good outperformance within Materials, Communications Services and Consumer Staples, where French retailer Carrefour was up more than 7%.

## 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.

This is marketing communication prepared by Sparinvest S.A. ("Sparinvest"). Please, refer to the Sparinvest SICAV prospectus and to the KIID/KID before making any final investment decisions. This is not a solicitation, an offer, or a recommendation to buy or sell any investment or to engage in any other transaction, or to provide investment advice. Past performance does not predict future returns. Capital at risk: the value of investments and the income from them can fall as well as rise and are not guaranteed. Investors may not get back the amount invested. Investments may be subject to foreign exchange risks. Investment in the Sparinvest product concerns the acquisition of units of shares in a fund, and not in a given underlying asset. The indicated performance is calculated without consideration of subscription or redemption fees. All relevant materials (in English) are available free of charge at [sparinvest.eu](http://sparinvest.eu) or by request. Information from external sources is used without verification and Sparinvest accepts no responsibility for their accuracy. Sparinvest may decide to terminate the arrangements made for the marketing of investment products.