Sparinvest

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 the month, 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 the month, 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 labor 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 market concern over the valuation of artificial intelligence related stocks led to outperformance of the value style in the month, which contributed to strong relative performance for the portfolio. The portfolio returned 2.31% in the month, outperforming the -0.38% return of the MSCI World. The portfolio also outperformed the MSCI World Value index in the month, with the MSCI World Value returning 0.50%. Against both indices, the outperformance came from a combination of the style exposure of the fund and stock selection. The value style contributed positively to performance, with the small-cap tilt a headwind. Financials and Materials were the strongest performing sectors in the market during the month, with Utilities and Real Estate the weakest.

For the full year, the portfolio returned 14.05%, ahead of both the MSCI World return of 6.77% and the MSCI World Value return of 6.50%. The value style of the fund was a positive in the year relative to both indices. Against the broad market the portfolio has a similar degree of cyclical exposure, however relative to the value index the portfolio has a greater cyclical bias, and this was a net positive contributor during the year. However, the value style and cyclical exposure, were partly offset by the small-cap tilt, as small-cap stocks, particularly in the US, struggled relative to large-cap stocks. Stock selection was a positive contributor to performance against both the MSCI World and the MSCI World Value.

US clothing retailer, American Eagle Outfitters, was a strong performer in the month as the company reported strong quarterly earnings driven by better than expected revenue growth. US aluminum producer Alcoa also performed well in the month as the price of aluminum continued to rise due to rising demand from sectors such as construction and renewable energy. Swiss bank UBS also had strong performance in the month due to the potential for a compromise over the Swiss authorities requirement for higher capital levels at the bank.

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.