

SO, HOW'S YOUR COMPETITIVE MOAT?

Software stocks hard hit by AI concerns

During February the market continued its daily search for the generational impact of artificial intelligence by focusing on software stocks. Historically high flying and highly valued, the fear was that artificial intelligence would soon replace complex software solutions with quickly produced bespoke versions. The catalyst for this particular fear was an updated release of Claude Code, an AI model from Anthropic. In the middle of the month, a much awaited ruling from the US Supreme Court declared the majority of President Trump's tariffs to be unlawful. The President declared his dismay with the ruling using his own inimitable phrasing, and promptly replaced the unlawful tariffs with a flat tariff on all countries using a different process, that may also be unlawful.

Later in the month, fears grew that private credit, a significant lender to startup software companies, would realize losses on their lending portfolios. This fear, compounded by private credit company Blue Owl permanently halting redemptions in one of its retail focused private credit funds, led to a broad sell-off in banks and private capital firms towards the end of the month. Overshadowing markets during the month was a steady buildup of US military force in the Middle East, although the precise intent was only revealed on the last day of the month as the US and Israel launched strikes against Iran.

The MSCI World returned 1.50% in the month, as strength in Japanese and European equities offset weakness in the US. The MSCI US market declined by 0.16%, as the drag from financial and software stocks impacted returns, compounded by uncertainty over the precise tariffs different imports are subject to. European equities performed well amidst growing optimism for economic growth across the continent, with the MSCI Europe index rising by 3.71%. Japan, however, was the standout market in the month, as stocks soared following the landslide election win of Prime Minister Sanae Takaichi and the expectations that she would deliver a major economic stimulus.

Value continues the strong start to the year

The portfolio returned 4.98% in the month, ahead of the 1.50% return of the MSCI World. The drivers of the outperformance was the style of the fund, particularly the value style, as well as some strong stock selection. The industry allocation of the fund was a moderately positive contributor to performance. The modest small-cap tilt of the fund was a slight negative, reversing the positive contribution from small-caps in the prior month. The MSCI World Value index returned 3.71% in the month, showing the benefit of the value style in this index vs. the broader market. Relative to the World Value index, the portfolio outperformed due to its higher exposure to the value factor, offset partly by the higher cyclicality of the fund relative to the Value index. Industry allocation was also a positive against the Value index.

Energy and materials were the two of the strongest sectors in the market for the second month in a row, as rising commodity prices, particularly for oil and metals, buoyed stocks in both sectors. Consumer Staples, Health Care and Utilities were also strong performers in the month as investors looked for a safe haven in some historically less cyclical sectors. Communication Services and Information Technology, two sectors dominated by the Magnificent 7 technology stocks, both underperformed, reflecting continued investor nervousness related to AI valuations.

As noted above, stock selection for the fund was strong during the month. US industrial company Terex was a strong performer, as the company reported strong bookings at the end of last year, indicating future demand remained robust. European steel company ArcelorMittal benefitted from an improved trade environment in Europe, as the European Union agreed to limit imports of steel from markets such as China. European telecommunications equipment company Nokia also performed well during the month as the market became more aware of the networking products of the company AI related potential of these products.

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.

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 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.