Balance EUR

Middle East Conflict Drives Market Volatility

Markets:

The first quarter was a disappointing period for returns across asset classes, as the conflict in the Middle East dominated the agenda. That being said, the year began on a strong note in January and February, where positive economic indicators supported risky assets. However, following the attacks that began on February 28, oil prices surged dramatically. This resulted in the largest quarterly increase in Brent crude oil prices (+94%) since the third quarter of 1990, when the Gulf War broke out. This shock triggered a broad sell-off across asset classes, and in March alone, the S&P 500 experienced its largest monthly drop in a year, while U.S. 10-year Treasury yields saw their biggest monthly increase since December 2024.

In mid-March, we adopted a neutral stance on equities relative to bonds while awaiting greater clarity on the situation in the Middle East. Oil prices remain around $100 per barrel, and the conflict has yet to deescalate, contrary to our initial expectations at the onset of the war. The longer the war and the resulting supply shock in commodity markets persist, the greater the risk of adverse effects on both inflation and growth, particularly in energy-sensitive regions such as Europe and parts of Asia.

This reallocation should primarily be viewed as a risk management measure, as the crisis introduces significant uncertainty in both directions and creates extremely low visibility in the short term. Our baseline scenario remains that the global growth outlook will stay robust through 2026. However, in the very near term, this outlook is challenged by rising energy prices, which may prove to be more persistent than initially anticipated. In other words, the economic risks increase significantly as time progresses.

The Portfolio:

The strategy concluded the first quarter with a return after costs on par with its benchmark. The portfolio achieved a net return of -1.1%.

The performance of the equity component was slightly under the fund's equity benchmark, achieving a return of -1.5%

Notably, active strategies such as Global Focus/Select Equities, Tactical Equity Allocation, and allocations to Danish equities and U.S. growth equities have contributed negatively. In contrast, Sparinvest Global Value and Sparinvest EM Value have made particularly strong positive contributions. Axiom faced challenges due to headwinds for the growth factor during the quarter but still delivered a return that outperformed what could have been expected from the pure growth factor alone.

Within the fixed-income segment, allocations to Danish government and mortgage bonds contributed positively. Meanwhile, allocations to convertible bonds, emerging market bonds, Investment Grade and high-yield bonds had a negative impact. Finally, allocations to infrastructure and private equity both delivered positive contributions.

Strategy

Balance is targeted at investors with a short investment horizon and/or low risk tolerance. The fund has a well-diversified exposure to equities, mortgage credit bonds, developed market treasury bonds, emerging market treasury bonds, corporate bonds and cash. The equities exposure is tilted to benefit from the value, small cap and momentum factors, and the exposure to corporate bonds is sought to be obtained through small issuers, low net debt and strong asset backing. For treasury and mortgage credit bonds, the strategy is to maintain a constant portfolio duration within a tight range. The overall exposure to the different asset classes is strategic and no attempt is made to time the market. The target equity exposure is 50%, but a deviation of +/- 5% is allowed before the portfolio is rebalanced.

Equity 50%	Fixed Income 50%