

NO, I'M BLOCKADING YOU

Markets rally despite Hormuz stalemate

The month began with continued US and Israeli air strikes against Iran. After an escalating series of threats from US President Donald Trump, a ceasefire was agreed between the Iran and the US, followed by negotiations on a peace. However, the Iranian blockade of the critical Strait of Hormuz remained in place, limiting flows of crude oil, natural gas and other critical materials. In response the US announced its own blockade of the Strait, blocking the few remaining tankers that were making the passage. As the month wore on, with the ceasefire leading to negotiations that did not seem to be achieving any positive movement, the price of oil began to rise again, reflecting a belief that this stalemate would be protracted. Brent oil, a benchmark grade of oil, ended the month above \$110 per barrel, above the \$60 per barrel at the beginning of the year, but far below the \$150 – 200 per barrel needed to balance supply and demand if the Strait of Hormuz remains closed.

Equity markets shrugged off concerns over the economic impact of high energy prices with markets posting strong returns in April. The MSCI World rose by 7.64% in the month, driven by a strong recovery in the Magnificent 7 group of mega-cap technology stocks. Sentiment for these companies improved as spending commitments for artificial intelligence related infrastructure grew, underpinned by fast growing demand for AI related services. The US was the best performing major market in the month, benefitting from the high weighting of the Magnificent 7 in its index, with MSCI US rising by 8.51%. European markets still had strong absolute performance, helped by good corporate profits with the MSCI Europe index rising by 5.19%, as markets were buoyed by hopes that the ceasefire would lead to peace.

The rising price of oil began to make itself felt in inflation figures in Europe and the US, putting pressure on central bankers to manage the tradeoff between inflation and economic weakness. The US Federal Reserve and the European Central Bank both decided to keep rate levels steady in April.

Magnificent 7 dominate returns

The portfolio returned 6.57% in the month, behind the 7.64% return of the MSCI World Index. The portfolio lagged the MSCI World index due to the dominance of the Magnificent 7 set of mega -cap technology stocks in the index returns. The fund's value style means that it did not own any of the highly priced Magnificent 7, and that was a headwind to performance. MSCI World Value also underperformed the broad market, despite a couple of the Magnificent 7 having recently been introduced to that index. The MSCI World Value index rose by 5.24% in the month. Relative to the value index, the portfolio outperformed by having a more pro-cyclical tilt than the value index. Although the cyclicity of the portfolio is generally in line with the broad market, the value index tends to have a slightly more defensive posture, and so the portfolio will benefit against the value index when cyclical stocks perform well.

Information Technology and Communication Services, the two sectors that house most of the Magnificent 7 stocks, were the strongest sectors in the month. Consumer Discretionary and Industrials sectors also performed well during April. Only two sectors, Energy and Health Care, were negative during the month. Energy stocks gave up some of the gains they generated in March when oil first spiked.

Despite not owning any of the Magnificent 7, the portfolio benefitted from owning a number of stocks that also had strong performance in the month. US semiconductor stock Intel was a strong performer, benefitting from growing investor expectation that the company's semiconductors would be in strong demand due to the growth in AI infrastructure. Also benefitting from the AI build-out, Finnish telecommunication company Nokia had performed well in the month as the company's networking products are in strong demand by data centers. US healthcare company CVS had strong (non AI related) performance in April as the company began to show stronger pricing of its health insurance products that had been negatively impacting earnings.

Strategy

Ethical 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 riskaware approach to the portfolio construction ensures a well-diversified portfolio and broad exposure across sectors and regions. Ethix SRI Advisors performs an unbiased screening to ensure that only ethically sound companies are included in the portfolio.

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