Sparinvest

# SMOOTH SAILING FOR THE MARKETS

## Markets rally continues despite Hormuz blockade

Despite the disruption to shipping and global energy supplies from the continued blockade of the Strait of Hormuz by both Iran and the US, markets continued to rally as tensions appeared to ease between the two belligerents during the month. The MSCI World index rose by 5.10% in the month, driven by continued investor enthusiasm on artificial intelligence as well as rising hopes that the US and Iran would reach an agreement.

The US was the strongest of the major markets during the month, reflecting the concentration of AI related names in the US market. The MSCI US index rose by 5.78% in May. Japanese equities were also strong during May, as this market also benefitted from the AI exposure of its semiconductor related businesses. Europe still had positive performance during the month, however performance was weak in contrast to the US and Japan, due to its more limited exposure to AI. The MSCI Europe index rose by only 3.16%, with performance dragged down markets such as the United Kingdom and France. The UK was a particularly weak performer, with the MSCI UK index almost flat for the month. The UK market sold off as political uncertainty rose, with the growing expectation of a challenge to the leadership of Prime Minister, Keir Starmer, and the fiscal discipline of potential challengers in question.

Although the hopes for an agreement between the US and Iran were ultimately unfulfilled by the end of the month, that did not stop oil prices declining, with Brent crude prices falling from $114 per barrel at the beginning of the month, to $92 per barrel by the end of May, albeit still a level far above the prices at the beginning of the year.

Yields on government bonds rose generally in the month, with yields on 10 year bonds in the US, Germany, UK and Japan all spiking during the middle of the month over inflation fears. Markets began to increase expectations that the US Federal Reserve will begin raising interest rates in response to the rise in inflation.

## AI stocks drive market performance

The portfolio returned 4.31% in the month, behind the 5.10% return of the MSCI World. The underperformance of the fund relative to the MSCI World was largely due to negative stock selection, as the MSCI World had greater exposure to the AI theme than the fund. The fund's value style benefited performance, as the value style performed well during the month.

The MSCI World Value index rose by 2.81% in the month. The value index underperformed the broad market, despite the strength of the value style in the month, as the value index lacks the cyclicality of the broad market. Relative to the value index, the fund outperformance came from more exposure to the outperforming value factor as well as having more cyclicality. The cyclicality of the fund is relatively neutral to that of the broad market, and this contributed positively to performance in the month relative to the value index.

Information Technology was by far the best performing sector in the market during the month, driven by the performance of the AI related stocks. Energy was the weakest sector in the month due to the decline in oil prices.

The fund had some strong performance in the month, from both AI related stocks as well as stocks unrelated to the theme. The strongest AI related performers in the fund were US based memory company SanDisk, US IT service company Hewlett Packard Enterprises and German semiconductor company Infineon Technologies. Outside of the AI theme, US aluminum company Alcoa was a strong performer in the month as aluminum prices rose due to supply disruptions from producers in the Middle East. European steel maker ArcelorMittal also performed well in the month, as the company benefited from the European Union's imposition of duties on imports, that will improve the balance of supply and demand for steel within the market.

**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.