Sparinvest

NOT MUCH ART IN THIS DEAL

Geopolitics takes a breather with US-Iran deal

Stocks rallied and oil prices fell as the US and Iran agreed to a tentative deal that extended their somewhat patchily enforced ceasefire and reopened the Strait of Hormuz to shipping. The deal, which itself was lacking in substance, is supposed to lead to negotiations on a more permanent deal. US President Donald Trump, facing domestic fallout for the consequences of the war, notably higher petrol prices, pushed ally Israel to accept the ceasefire. However, repeated subsequent violations of the ceasefire suggested that the path to peace would not be without challenges.

Higher inflation, in large part due to higher energy prices, focused investors on the potential for central bank tightening. The European Central Bank increased rates in June, and despite the US Federal Reserve keeping rates on hold, expectations for US rate increases in the coming months increased. Rising rate expectations led to a market sell-off at the beginning of the month, focused on AI related stocks, in particular the so-called hyperscalers, that are spending hundreds of billions of dollars on growing datacenter capacity. The US-Iran deal in the middle of the month led to a rally in stocks, however towards the end of the month rate concerns came back to the fore and AI related stocks struggled again. The MSCI World returned 1.34% for the month, meaning the index rose by 14.64% during the quarter.

European and Japanese equities outperformed US equities in the month, as the US market was held back by its concentration in AI related companies. European and Japanese economies were set to struggle the most from higher energy prices, and as a consequence are set to benefit the most from reduced oil prices coming from the reopening of the Strait of Hormuz.

US short term rates rose, reflecting the expectation that the US Federal Reserve would have to tighten monetary policy. However, longer term rates did not respond, suggesting markets still believe that that the Fed can control inflation in the medium term.

The big beasts of AI struggle in the month

The portfolio returned 3.43%, ahead of the 1.34% return of the MSCI World index. The fund style was a relatively neutral contributor to performance, although the fund did benefit from having a small-cap tilt, as some of the mega-cap technology companies not owned by the portfolio were amongst the worst market performers. Stock selection was a strong positive contributor to the funds outperformance. The MSCI World Value returned 1.73% during June. As against the broad market, stock selection was the most important component of relative return.

The MSCI World and World Value indices have become increasingly concentrated over the past few years, and following a rebalance at the end of last month, the Value Index now has a very large weight in Microsoft, a stock that was not previously in the index. Microsoft had particularly weak performance during the month, due to the aforementioned concerns over AI capital spending, and as the fund did not own Microsoft, this benefitted relative performance. Due to the rise in market concentration, the outsize impact on relative performance from a few companies, both positively and negatively, is likely a feature of markets for the foreseeable future.

Health care was the strongest sector in the market during the month, with Financials and Industrials also strong. Communication Services (which includes some of the largest AI hyperscalers such as Alphabet and Meta), Energy and Materials were the weakest market sectors in the month.

Notwithstanding the performance benefit from not owning Microsoft, the fund did have a number of holdings with particularly strong performance. Owens Corning, a US based producer of roofing and insulation products, had strong performance after being the subject of a rumored takeover by a peer. French consumer staples company Danone was also a strong performer in the month, after announcing a couple of acquisitions that will improve the company's position and growth potential in healthy focused products.

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 risk-aware approach to the portfolio construction ensures a well-diversified portfolio and broad exposure across sectors and regions. The fund applies exclusions as detailed in Methodology Document for Sustainable Investing.