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 Index 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.

Negative stock selection in June

The portfolio returned -0.18% and underperformed the 3.04% return of the MSCI Europe Index. The fund's value style was a relatively neutral contributor to performance, although the fund was negatively affected by its small-cap tilt, as reflected in the -2.99% return of the MSCI Europe Small Cap Index. Stock selection also detracted from performance, as some portfolio holdings disappointed during the month. In addition, the fund did not own the large benchmark constituent ASML, which delivered very strong performance. The MSCI Europe Value Index returned 2.94%. As against the broad market, the small-cap tilt and stock selection were the most important drivers of relative returns.

IT was the standout sector, as semiconductor-related companies, including the major benchmark constituent ASML, benefited from improving AI demand. Insurance and banking stocks gained on resilient profitability, while more defensive sectors such as Utilities, Health Care, and Consumer Staples also outperformed the broad market. Energy and Materials were the weakest-performing sectors during the month.

The negative contribution from stock selection was concentrated within the IT sector as mentioned above but also within Materials, Consumer Discretionary and Industrials. German fertilizer producer K+S underperformed as a 300m convertible bond offering to finance a previously announced acquisition put pressure on the share price in a month where there was also sector-wide pressure with falling fertilizer prices and the broader uncertainty around Hormuz supply normalization. The fund did have a number of holdings with strong performance as well. French consumer staples company Danone was also a strong performer during the month after announcing two acquisitions that are expected to strengthen the company's position and growth potential in health-focused products.

Strategy

European Value invests in European equities, 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 countries.