

BOND MARKETS LOSE THE FAITH

Bond yields spike on inflation fears

Government bond markets experienced significant declines across most major markets as fears grew that inflation was becoming more entrenched. Longer dated yields for a number of countries spiked to their highest levels in recent memory. The US 30-year yield hit 5.34% in mid-August, the highest level since 2007, before the financial crisis. German 30-year yields rose to their highest since 2011 and Japanese 10-year rates reached levels last achieved in the mid 1990's. The inflation fears were driven by rising oil prices, as the conflict between the US and Iran remained in a stalemate, with the Strait of Hormuz, a critical artery for oil supplies, remaining well below capacity. Towards the end of the month, the US treasury increased its purchases of 30-year government bonds. Although ostensibly done to improve liquidity in long dated bonds, the actions were also clearly intended to limit the increases in long dated yields.

Equity markets shrugged off bond market jitters by posting positive returns, with AI related stocks showing some recovery after a significant sell-off in July. The MSCI World rose by 1.60% in the month. Japan and the US were the strongest performers of the major markets, although the US performance was particularly focused on Information Technology, with the rest of the US market lagging. Europe was the weakest performing region, with the MSCI Europe rising by only 1.01%, in contrast with the 2.30% return of the MSCI US. Within Europe, Germany was amongst the better performing markets, buoyed by stronger than expected economic data. France was one of the worst performing markets in the month, with markets focused on rising political risks in the leadup to French Presidential elections in spring 2027.

After declining early in the month, oil prices rose significantly during the latter stages of the month as the conflict between US and Iran showed no signs of abating, with the US ending the month by threatening an "economic D-Day" on Iran.

Technology stocks stage a recovery

The portfolio gained 1.01% during the month, outperforming the MSCI Europe Index, which returned 0.46%. The portfolio's style positioning had little impact on relative performance, while sector positioning was supportive. In particular, the overweight in Materials and underweights in more interest-rate-sensitive sectors contributed positively. The MSCI Europe Value Index declined 0.29% over the month. Its weaker performance was not primarily a reflection of the value style itself, but rather of sector positioning and stock-specific factors. Against the MSCI Europe Value Index, the portfolio's outperformance was predominantly driven by strong stock selection.

Information Technology was a strong performing sector recovering somewhat from the underperformance in July. However, Materials was the best performing sector as many companies benefitted from rising prices in underlying commodities. Utilities, Real Estate and consumer staples, typically more interest rate sensitive sectors, were the weakest sectors.

Several holdings in Information Technology and Materials were among the portfolio's strongest contributors. Nokia and Capgemini both performed well, while ArcelorMittal gained around 5%, as investor sentiment towards the European steel sector improved. German potash producer K+S rose almost 14% following quarterly results ahead of expectations and an increase in full-year guidance. Management pointed to strong potash demand, positive pricing trends and improved production output. WPP was the strongest-performing holding during the month. The British advertising group delivered better-than-expected results, supported by new account wins and continued progress with its restructuring programme. The results triggered the company's largest one-day share price gain since its 1995 IPO.

Strategy

European 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.

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