

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 returned 1.32% in the month, below the 1.60% return of the MSCI World. The fund's style was a modest headwind to performance in the month, as the value style underperformed, and in addition the small-cap tilt of the fund also impacted performance as small-caps also underperformed during the month. Strong performance from several highly valued technology stocks that have a large weight in the index but are not held by the fund, notably Nvidia and Microsoft, also negatively impacted relative performance. The MSCI World Value returned 1.58% during the month. Relative to the MSCI World Value, the fund's underperformance came largely from not owning Microsoft, which has an extremely high weight in the value index and therefore a disproportionate impact on relative performance. Fund style had a broadly neutral impact on performance relative to the value index.

Information Technology was a strong performing sector in the month, recovering somewhat from the sell-off in July. Energy and Materials were also strong performing sectors in the month, with stocks benefitting from rising prices for the underlying commodities. Alongside oil, gold was also a strong performer in the month in its typical role as an inflation hedge, and this benefited a number of gold miners in the Materials sector. Utilities and Real Estate, typically more interest rate sensitive sectors, were the weakest sectors in the market during the month.

Despite the relative underperformance, the fund still had a number of holdings that performed well. US memory producer SanDisk performed well in the month, benefitting from the improving sentiment in AI related names. US agricultural equipment company CNH Industries also had strong performance in the month as sentiment improved for the sector with expectations rising for a more stable demand environment. Japanese telecoms company NTT also performed well in the month after announcing stronger than expected earnings.

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.

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