

## Ethical Global Value

## EQUITY

# Value follows interest rates

## Consolidation and higher risk appetite

**Markets:** The month of April was characterized by increased risk willingness in markets and further weakness in the USD. The reason was probably that we saw macroeconomic consolidation in April after a somewhat disappointing first quarter in especially the US.

The growth in US industrial production was still negative (-2%) in March, but we expect improvement going further into second and third quarters. For the Eurozone, the growth in industrial production was still positive (0,8%) and we also expect a gradual improvement for the Eurozone over the coming 12 months. The tightening of both the European and US labor markets continue in the latest data points. In the US, we saw that initial jobless claims were at the lowest level since 1973. The unemployment rate for the Eurozone also dropped more than expected (to 10,2%) for the month of February. Most macroeconomic data points are still showing moderate or stable improvement for the Eurozone. Both PMI-surveys and ZEW-surveys are at expansionary levels and retail sales are still showing solid growth, although the growth is slightly lower than at the end of 2015. Inflation figures are still flirting with deflation in the Eurozone (0,9% in the US), but 5Y5Y-inflation swaps show that long-term inflation expectations are growing slightly during April, which is probably primarily a result of a large increase in energy prices from the bottom in first months of the year.

## Energy and retailers hurt performance

**Performance** Global stock markets continued upwards in April, albeit with volatility along the way. The fund generated a return of 0.35 % - underperforming the MSCI World Index

by 0.71 %. Value stocks measured by the MSCI World Value Index, fared slightly better than the market as ten year rates closed the month slightly higher than March month end. We have previously discussed how value stocks for years have correlated with interest rates and that pattern continued in April. US stocks trailed the European market, while Japanese stocks rose the most assisted by a 5% strengthening of the Japanese yen. In terms of industry sectors, materials was the best performer, followed by energy, driven by the continued stabilization in commodity prices. Due the fact that a lot of energy stocks are excluded by the sector based screening, the fund suffered from being underweight in energy.

Most of the above factors have had a positive impact on fund returns, but stock picking was a detractor to April's excess return

A handful of shares disappointed us. A significant negative contributor was our exposure to US consumer discretionary – in which we have an overweight in retailers, whose shares paid the price for weak results and disappointing consumer spending towards the end of the month. An overweight in the segment combined with a lack of exposure to online companies like Amazon was a sizeable detractor.

So far, Q1 earnings season in all regions revealed a significant drop in earnings, but still the results are better than feared. Obviously, those who disappoint the most in these nervous markets feel the pain. Consequently, Swedish Ericsson was among the worst performing stocks of the month after its disappointing results.

## Strategy

The fund invest in value stocks. Through careful fundamental analysis, the team strives to identify companies that trade at healthy discounts relative to intrinsic value. A risk-aware approach to portfolio construction ensures a well diversified portfolio. The Fund pursues an active value investment strategy, which is the reason why performance may deviate from benchmark.