

## European Value

EQUITY

# Outperformance regains Brexit loss

## Unusually low volatility in stocks

**Markets** The month of August was characterized by unusually low volatility in the stock market. The volatility index (VIX) for the S&P 500 mainly traded in a range between 11 and 13. It normally trades between 13 and 18. The fixed income market volatility was also quite low. Long interest rates in Europe were more or less unchanged, whereas long interest rates were generally a bit higher in the US at the end of the month. This development was primarily caused by the fact that macro data in Europe in general came out as expected, and data in the US (especially Nonfarm Payrolls) was slightly stronger than anticipated.

The trend in equity markets is still higher and is broadly based with momentum across the global markets, which still indicates risk-willingness. The price of oil (WTI) increased by 8.7% in August, which also serves to indicate optimism.

In currency markets the Pound finally found willing buyers after an almost continuously declining trend since the British decision to leave the EU. The most liquid, British property funds also increased throughout August and are now almost back at the pre-Brexit decision levels. In other words, the market is no longer troubled by the Brexit decision.

Rate expectations in the US were increasing throughout the month and it appears increasingly likely that the Fed is going to hike interest rates before year-end. The Fed governor, Janet Yellen, is recognizing the progress of the US labor markets and is also indicating that the rate decisions are depending on further progress.

## Broad based outperformance

**The Portfolio** European stocks continued the upward trend from last month, albeit more muted, as MSCI Europe was up 0.7 %. The fund returned 2.40 % (1,7 % outperformance) and it has now regained the relative losses since Brexit, with a YTD outperformance of almost 4%.

Healthcare stocks were among the relative losers as Hillary Clinton launched a new attack on drug pricing. Whether there is a real risk of post-election legislative changes remains to be seen, but headline risk alone pushed prices in August. The more hawkish tone by the FED fueled a rally within financial stocks around the world while investors shunned rate sensitive bond proxy-stocks, which can be seen by the significant underperformance of Utility stocks. As predicted, the same rate dynamics applied for value stocks, which outperformed the overall European market during the month. The fund benefitted from both its sector exposures (underweight Healthcare and Utilities) and its inherent value style.

The more company-specific returns were generated within Capital Goods as well as within our auto-related exposure where many stocks continued to rebound backed by solid quarterly reports.

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## Strategy

European Value invests in European equities. A small proportion can be placed in other securities. 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.

For further information we refer to the prospectus, the key investor information document and the current annual / semi-annual report of Sparinvest SICAV which can be obtained free of charge at the offices of Sparinvest or of appointed distributors together with the initial statutes of the funds and any subsequent changes to such statutes. Investments are only made on the basis of these documents. Past performance is no guarantee for future returns. Investors may not get back the full amount invested. Investments may be subject to foreign exchange risks. The indicated performance is calculated Net Asset Value to Net Asset Value in the fund's base currency, without consideration of subscription fees.