

Balance EUR

BLEND FUNDS

Lower interest rates, stronger euro

Has the U.S. topped?

Markets During the month of August second quarter GDP figures for the Eurozone were revised up to 2.2 percent, which is the highest since the Euro-crisis in 2011. The manufacturing industry PMI rose to 57.4, which is also the highest in several years.

The leading indicators for the Eurozone are pointing sharply higher, so a recession is definitely not around the corner. Despite a strong outlook, long German interest rates dropped about 20 basis points throughout the month. The drop might be explained by lower import prices and inflation expectations due to the stronger euro, which has rallied 13 percent since year-end.

For the U.S., leading indicators topped out and began to decline slowly – but the CLI (OECD's Composite Leading Indicator) is still high. U.S. growth is thus likely to moderate over the coming six to nine months, but negative growth or an outright recession is still unlikely.

Equity markets have been slightly weak since the summer, but most of the weakness was caused by a stronger euro, which has subtracted from the return of non-European markets. The volatility index (VIX) was rather nervous in August due to the missile launches in North Korea. We expect a rather limited impact on the global economy in the case of an escalation – even if we see outright war. Financial markets

might be impacted, but we expect such an impact to be temporary – in the unlikely event that war actually breaks out.

Strong performance

The Portfolio The fund had a solid excess return in the month of August.

All four geographical exposures in the equity allocation (50 percent) beat their respective benchmarks. Especially the double-sorting (Value X Momentum) worked well, although Value as a factor lagged behind the general market in August.

The allocation to bonds (50 percent) also performed well in August. Again, the overweight to Danish mortgage bonds benefitted from narrower spreads and higher carry than the government bond universe.

Due to the past strong performance in Danish mortgage bonds, we have now reduced the exposure to the most risky parts (callable bonds) that are too highly priced compared to the risk of negative convexity.

The allocation to both High Yield and Investment Grade corporate bonds performed as expected.

See performance and fund data [Click here >](#)

Strategy

Balance is targeted at investors with a short investment horizon and/or low risk tolerance. The fund has a well-diversified exposure to equities, mortgage credit bonds, developed market treasury bonds, emerging market treasury bonds, corporate bonds and cash. The equities exposure is tilted to benefit from the value, small cap and momentum factors, and the exposure to corporate bonds is sought to be obtained through small issuers, low net debt and strong asset backing. For treasury and mortgage credit bonds, the strategy is to maintain a constant portfolio duration within a tight range. The overall exposure to the different asset classes is strategic and no attempt is made to time the market. The target equity exposure is 50%, but a deviation of +/- 5% is allowed before the portfolio is re-balanced.

Return is calculated excluding swing and gross of fees.


