

Balance EUR

BLEND FUNDS

US rate hike

Continued optimism in markets

The market reacted positively in December, which was not characterized by any large surprises. As expected, the Fed reacted to strengthening macroeconomic data – e.g. higher inflation expectations – by hiking the interest rate by 25 bps. to 75 bps. Subsequently, the USD continued its strengthening vs. the EUR, also helped by a large drop in the US unemployment rate.

Macroeconomic data from the Eurozone were also strong in December – and generally better than expected. Especially figures from the manufacturing industry showed improvements, but also growth in the money supply, Eurozone GDP and employment were stronger.

The stock market recorded another month of strong performance in December with MSCI World (EUR) increasing by 3.16%. MSCI Emerging Market (EUR) gave investors a return of 0.87%. Long inflation expectations gradually increased throughout the month to 1.74% at the end of the month.

Interest rates generally increased in December – especially at the beginning of the month. German 10-year rates increased to about 0.4%, but in the latter part of the month, they came

down to 0.2% again. In the US, 10-year rates increased to 2.6%, but ended the month at 2.4% despite strong macro-economic figures.

Solid performance in December

The fund's performance in December was 2.17%, which was 0.25% ahead of its benchmark. Of the 10 different types of exposures of the fund, only two lagged behind their respective benchmarks.

The biggest, positive contributor to the excess return was the fund's exposure to European Bonds, where the overweight to Danish mortgage bonds once again paid off – both via higher carry and through a well-positioned duration of the portfolio. The allocation to Short European Bonds was smaller, but the excess return in this exposure was slightly lower.

The overall equity exposure of the fund also did well in December with an excess return of 0.2% compared to the equity benchmark. The Japanese and the US exposures were the primary contributors to the equity excess return.

See performance and fund data

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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.

