Sparinvest

Minimum EUR

BLEND FUNDS

A challenging fourth quarter

Tightened monetary conditions

Markets Until September, 2018 had been a pleasant year for equities, since MSCI World (in euros) had returned 9.5 percent. With the Fed's decision to hike the Fed's Funds Rate in December despite rapidly falling inflation expectations, equity markets reacted quite negatively in the fourth quarter, which resulted in negative equity returns for the entire year of -3.6 percent in MSCI World (in euros).

The leading indicators from OECD continued their downward tendencies throughout the fourth quarter and both inflation and rate expectations fell in both Europe and the U.S. Several confidence indicators in the Eurozone also continued to drop, even though they still managed to end the year on quite lofty levels.

Concerning the development in the real and 'hard' data of the Eurozone, the fourth quarter also saw a decelerating tendency in line with the development in the leading indicators earlier in the year. The Eurozone is clearly in a decelerating development – without, however, entering recessionary levels of economic activity. Also, manufacturing industries in both the U.S. and the Eurozone reported a clear drop in orders and activities towards year-end.

Negative returns in the fourth quarter

The Portfolio delivered a return of -2.7 percent in the fourth quarter, which was on par with its benchmark. The single most important explanation for the negative fund return was the negative development in the equity markets.

When looking at the fixed income allocations of the fund, the highest quality also delivered the highest return in the volatile, fourth quarter. The overweight to Danish mortgage bonds once again proved to be well functioning as a safe haven. Especially the callable segment of short-duration mortgage bonds performed well.

The exposure to corporate bonds generally performed better than their respective benchmarks due to a defensive approach throughout the entire year, which was dominated by considerable spread widening – especially in the fourth quarter. The returns were also impacted from strong security selections. The emerging market government bond exposure was also characterized by a defensive approach, which also led to solid excess returns. Both corporate bonds and emerging market bonds nonetheless had negative returns in the fourth quarter.

Return is calculated gross of fees and excluding swing.

Strategy

Minimum 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 25%, but a deviation of +/- 5% is allowed before the portfolio is rebalanced.