

Ethical Global Value

EQUITY

Hesitant markets in January

Inflation expectations normalising

Markets A further strengthening of macroeconomic figures was broad-based in January. This included higher retail sales growth and industrial production growth in the Eurozone combined with a further drop in the unemployment rate to 9.6% (from 9.8%). GDP growth in the Eurozone came out at 1.8% - slightly higher than expected. On this background, the EUR appreciated about 2.5% vs. the USD. Long-term inflation expectations for the Eurozone are continuing to normalise towards their historical average – due to e.g. higher energy prices – and are now around 1.8%.

Inflation expectations also increased in the US. The 5Y5Y inflation swap is now trading at 2.4% and ISM Prices Paid (a survey capturing inflation expectations) came out at 65.5, which is the highest since 2011. The so-called NFIB Small Business Confidence came out at 105.8, which resulted in the largest monthly increase in the survey since 1980.

Coinciding with fears of growing protectionism in the market, the Morgan Stanley Global Trade Indicator came out at the highest level since 2010, which also supported energy prices.

MSCI World (eur) was about unchanged due to the strengthening of the EUR in January, but German 10-year government bond yields increased 23 bps, while US 10-year government bond yields were effectively unchanged.

Market rotation stalled

The Portfolio The fund lost 1.06%, while the MSCI World index lost 0.05%.

While the reflation theme from late 2016 was still on top of the agenda in January, the rotation from defensives to cyclicals and from growth to value stalled, as investors seemed to await more details on US fiscal policies. A significant decrease in global stock-to-stock correlation confirmed that market participants are hesitant regarding how to position themselves.

Energy stocks are starting to benefit from higher oil prices, while financials embrace the steepening yield curves. Meanwhile, in spite of good results so far in earnings season, both sectors underperformed, as investors took profit. Materials continued to perform strongly on the back of increased growth expectations and Chinese capacity cuts. In terms of sector impact, the relative overweight in materials resulted in a small positive contribution to outperformance from the sector allocation in January.

On the other hand, the inherent value bias and small cap exposure was a small net detractor relative to benchmark.

Contribution from stock selection was also negative and very broad based. Among the worst relative performers, we find some of our US retailers. Donald Trump's reform plans, especially those regarding import taxes, are threatening retailers, who generally depend on overseas manufacturing.

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

Strategy

Ethical Global Value invests in global equities from developed markets, cf. the fund's prospectus. 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. Ethix SRI Advisors performs an unbiased screening to ensure that only ethically sound companies are included in the portfolio.