

## Ethical Emerging Markets Value

EQUITY

# Strong but volatile start to year

## Macro data good but yields spook markets

**Markets** Emerging market equities had a flying start to the year. With strengthening global growth, higher oil prices, and a weaker USD, January saw the strongest monthly returns in emerging markets since March 2016. MSCI Emerging Markets gained 4.4 percent in euros. Meanwhile developed markets (MSCI World) rose only 1.4 percent. Note that the euro rallied more than three percent against the USD – so equity returns were even higher when measured in USD.

It was, however, a volatile month. In bond markets, the U.S. 10-year yield rose throughout January, reaching the highest level since early 2014. Long interest rates also rose in Europe in January. Those yield increases were triggered mainly by positive economic conditions, and when rates rise for those reasons, it is normally associated with positive returns in equity markets. That was true for most of January, but at month end, the continued interest rate rises spooked markets. Equities fell, with investors perhaps fearing faster than anticipated normalization of monetary policy. This sell off continued into early February, but we note that the underlying macro-economic conditions do generally remain supportive, and equity declines may provide buying opportunities.

Within emerging markets, Brazil was the strongest performer, thanks to both oil prices and continued economic recovery. Towards month end, the courts upheld a guilty verdict for corruption against former President Lula, who had some hopes of running for re-election later this year. China also did well, thanks to decent momentum in the economy and corporate earnings.

## A month of two halves

**The Portfolio** In January, the fund gained 1.90 percent, while the MSCI Emerging Market index gained 4.43 percent, so the fund's returns fell short of the index. However, there was a clear distinction between the early weeks, and the period since the market correction began on 26 January.

During most of January, a few factors combined to limit the fund's returns relative to the MSCI EM index. Smaller companies were generally weaker in the market, so the fund's small and mid-cap exposures acted as an anchor on returns. The fund currently has relatively low exposure to oil and gas stocks, which rallied strongly as oil prices rose. Finally, some individual stock selections had a somewhat negative impact. We have previously argued that some of the mega-cap tech stocks are too pricy for value investors at these levels, and the fund suffered from not owning Tencent and Alibaba as they continued to rise during most of January. Meanwhile, some of our smaller holdings such as Korean auto-parts maker Mando and Indian tire company CEAT were punished for disappointing short-term earnings. We digest such short-term news, but focus on the long-term investment rationale.

Since the market correction began, the fund gained strongly in relative terms. The Information Technology sector has been a stock market darling for a long time now, but since 26 January has been one of the worst performing sectors, so our fund benefitted from its underweight. Mega-cap tech stocks like Alibaba, Tencent and Naspers fell sharply, so the fund benefitted from not owning them. Against that background, some of our holdings performed strongly, such as Taiwanese LCD maker Coretronic.

Return is calculated gross of fees and excluding swing.

See performance and fund data

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### Strategy

Ethical Emerging Markets Value invests in equities issued by companies from Emerging 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 countries.

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.