

European Value

EQUITY

Positive but volatile start to year

Macro data good but yields spook market

Markets Equity markets had a flying start to the year. In January, MSCI World (developed markets) rose around 1.5 percent in EUR, while MSCI Emerging Markets gained about 4.5 percent. Note that the EUR 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. The rate increases reflect improved global expectations for growth and inflation, 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 the end of the month, the continued interest rate rises actually triggered falls in the equity market.

Perhaps more important than the degree by which U.S. rates increased, was the symbolism. Rates have described a long-term downward trend since 1987, but the recent move broke up through the line of that trend. Equity markets seem to have been spooked, perhaps fearing faster than anticipated normalization of monetary policy. These worries also had an impact on other, risky asset classes like EM bonds and HY corporate bonds at the end of January.

Note that, despite the falls late on, at month-end it remained one of the strongest Januaries for equities in recent years.

Interest rates impacts sectors

The Portfolio In January, the fund gained 2.18 percent, while MSCI Europe gained 1.60 percent.

European markets started the year on a strong note, as global markets generally continued upwards. For most of the month, rising yields meant certain sectors seen as benefitting from low interest rates were punished. So, Utilities, Real Estate and Consumer Staples performed poorly, while there were relatively healthy returns for Financials – for which rising yields can be a tailwind.

That pattern changed late in the month, when equity markets fell and investors flocked into the three same sectors perceived to be relatively defensive. Nonetheless, at month end all of those sectors remained in negative territory and our fund benefited from its limited exposure to both. Actually, the fund's industry exposure within Consumer Staples was a positive contributor to relative returns, since we were overweight outperforming food retailers. Style exposure resulted in a minor tailwind, but with similar volatilities in the last week of the month.

Among the top contributors were French investment company Eurazeo, Aareal Bank and Arcelor Mittal. In addition, Peugeot is worth mentioning. After a tough fourth quarter last year where it was priced down due to concerns regarding the Opel strategic plan and its overall recovery, it presented a good report. Restructuring seems to have started, and the core business is doing better than anticipated and Peugeot was rewarded with a seven percent share price appreciation in January.

Return is calculated gross of fees and excluding swing.

See performance and fund data

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Strategy

European Value invests in European equities, 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.