

## European Value

EQUITY

# Strong Euro dragged on the result

## Europe surprises

**Markets** During the month of July the positive, macroeconomic surprises continued in the Eurozone and the small but consistent disappointments from the US also continued. As a result, the spread in the long rates between the two regions also contracted somewhat in July and the euro continued to strengthen vs. the US dollar.

EURUSD is now at the highest level in more than two years, but in terms of purchasing power parity the euro is still undervalued vs. the US dollar. The newly found EUR-strength is eroding returns in global equity portfolios that naturally have a large exposure to US stocks and the US dollar. Thus, MSCI World (in EUR) yielded a negative 0.9 percent in July.

Despite the negative EUR-return, local currency equity market returns were strong in July where the VIX index posted its lowest reading ever (8.84), and EPS expectations for 2017 made new highs.

The German 10-year government yield continued its upward trend in July responding to strong Eurozone data – amongst others economic indicators like the German business confidence index IFO and the monthly surveys of private sector companies (PMI's). This picture was supported by the fact that the leading indicators from OECD are trending upwards for both the Eurozone, Japan and China, whereas only the US is experiencing a slight slowdown in the leading indicator from the OECD.

## The fund surpassed the benchmark

**The Portfolio** The monthly return was 0.48% compared to a loss of 0.37% for benchmark. As of end July, the fund gained 7.68% - 1.4% more than MSCI Europe.

European equities outperformed relative to US equities, when measured in euros, thanks to the currency move. Investors expected less and less from Donald Trump, who made the headlines again when he sacked several important members of his administration. Furthermore, Janet Yellen expressed surprise regarding continued weakness in US inflation, and market participants now seem to expect that Fed hikes will happen later than anticipated while ECB tapering is getting closer.

Sector performance reflected the strong European economic data trend. Materials and financials were up more than 2.5% while healthcare and consumer staples fell. The fund's sector exposures account for roughly half of this month's outperformance. Similarly, the inherent value and small cap exposure contributed nicely to the excess return. Impact from country exposure was limited although country performance was quite divergent.

Second quarter earnings releases have generally been encouraging so far, which help support the overall market. While the majority of the fund's companies beat expectations, a few disappointments from Ericsson and UPM led to a negative contribution from stock selection in July. However, the two worst performing stocks were down on other news: AstraZeneca fell due to a setback in trials of a new lung cancer treatment, while diesel-engine maker Deutz plunged as Volvo announced that it would sell its 25% stake following the earlier announcement that all new models will have an electric motor from 2019.

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

## 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.