

Brexit causes volatility

Nervous markets in June

Markets The month of June was characterized by considerable volatility – both before and after the British referendum on the association to EU, which clearly was the most important event in June. The market was generally positioned for a “remain” and when news broke early in the morning of the 24th of June that the United Kingdom had chosen to leave the EU, a shock wave went through the markets.

The Pound immediately fell 8 percent compared to the Euro, which itself dropped vs. the US Dollar. Equity markets also showed large sell-offs – especially in Europe and especially for financial stocks. Interest rates and rate expectations dropped to new lows. The price of gold increased and the US Dollar and the Yen rallied – all of it in a significant turnaround from moderate risk-willingness to explicit risk-aversion. At the same day, however, the nervousness receded and most of the risky assets have already regained much of the lost territory. MinVol and Momentum worked best as factors in the stocks markets in June, while Value and Small Cap were weakest.

Macro data from the Eurozone were surprisingly strong considering the uncertainty that the Brexit referendum led to. PMI numbers advanced a tad and are all above neutral (50). Updated estimates of first quarter growth in GDP, consumption and employment all came out at decent levels, but retail sales in the Eurozone was slightly disappointing.

Figures from the US labor market were considerably worse than expected in June. The weakness is probably caused by a manufacturing sector under pressure as well as reduced employment in the energy sector.

Inflation expectations in both the Eurozone and the US (5Y5Y inflation swaps) both dropped about 15 basis points in June,

which was primarily a result of the uncertainty surrounding the Brexit referendum

Risk aversion after Brexit

Performance The month of June started more or less flat the first week, down -3.5 percent after two weeks, while the last week of the month was very much affected by the Brexit vote, where the markets were shocked by the fact that UK voted to leave the European Union. After this the fund ended up in -2.3 percent and the benchmark in -0.9 percent by month-end, so the fund performance was not satisfactory in June.

We saw relative underperformance driven by consumer staples (underweight in most expensive names), financials (mostly US) and industrials in the fund. Best performing sector in relative terms was IT. Interest rates came down and uncertainty up on the back of the Brexit and triggered a “classic” risk-off movement in the market. This is when investors hide in the most defensive names, the so called bond proxies, stocks that are also the ones that we find most expensive in the market currently.

Since the February 11 lows, European stocks are still up by around 17 percent, and the benchmark the same. The big elephant in the room the coming months will be the whole situation caused by the Brexit vote result. Equity markets have a hard time quantifying the real risk of a highly political situation into something concrete in economic terms.

So over the summer, there will still be great uncertainty about the outcome and the consequences of UK leaving EU or not, FED rate decisions and the state of the Chinese economy. Therefore, the summer could be set for increased market volatility.

Strategy

The fund invests in value stocks. Through careful fundamental analysis, the team strives to identify companies that trade at healthy discounts relative to intrinsic value. A risk-aware approach to portfolio construction ensures a well diversified portfolio. The Fund pursues an active value investment strategy, which is the reason why performance may deviate from benchmark.