

Brexit Caused Volatility

Brexit Took the Market by Surprise

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 July that the United Kingdom had chosen to leave the EU, a shock wave went through the markets.

The Pound immediately fell 8% 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. MSCI world (EUR) delivered a total return of -0,9%, though helped by a weaker Euro. Long interest rates hit new all-time lows after the Brexit referendum and German 10-year rates are now trading at -0,12%.

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.

Heavy drop in interest rates

Performance The fund return in June was at -1,78%, which was primarily caused by weak stock markets and additionally the strategic overweight to European stocks, which were among the weakest.

Large declines in interest rates abated some of this negative impact in the fund's bond exposure, where especially the government bonds gave decent returns. The fund's exposure to mortgage bonds also contributed, but not as much as the spread between government and mortgage bonds widened.

Strategy

The fund offers investors with long investment horizons and/or high risk willingness a well-diversified portfolio with exposure to both equities, government bonds, mortgage bonds, corporate bonds and EM government bonds. The investment strategies are, where possible, implemented to ensure that investors benefit from academically and empirically well-proven factors, which lead to superior long-term risk-adjusted returns than a pure market exposure. For the equity allocation, this means that investors are exposed to both Momentum, Value and Size. The overall exposure to the different asset classes is strategic and no attempts to time the market are done. The equity exposure target is 65%, but deviations of up to 5%-points from the target allocation are allowed before rebalancing the portfolio.

