

European Value

EQUITY

Hawkish rhetoric from Draghi

Stronger EUR and higher rates

Markets During the month of June, the Eurozone continued delivering solid macroeconomic figures. Retail sales growth was 2.5% and the year-on-year growth in total employment is now running at 1.5%, which is the highest level since 2008. The downward tendency in inflation expectations since the beginning of the year ended abruptly with an increase at the end of June.

European consumer confidence continues to increase and is now at the highest level since 2007. This increasing confidence is also the case for a host of industry surveys, which are also generally signaling a region in rapid expansion. OECD's leading indicators are still showing an upward trend.

In the US, the overall picture is more nuanced. The leading indicators from OECD are apparently getting closer to topping out (bar any revisions), but the leading indicators from the Conference Board show no such tendency yet. Several analysts are concerned about a rather forceful deceleration of overall loan growth in the US, but that might be a natural and healthy normalization of the very high growth in the auto loans segment.

The president of the European Central Bank (ECB), Mario Draghi, took the market by surprise at the end of June by delivering a rather hawkish speech signaling a more hasty normalization of monetary policy than previously anticipated. In particular, long European bonds sold off as a reaction and the Euro rallied vis-à-vis the US Dollar.

Value back in favour

The Portfolio After four consecutive months of positive returns, European markets were negative as they gave up 2.5% and the fund lost 1.8%. As of end June, the fund has gained 7.2% compared to the benchmark's 6.7%.

Government bond yields saw a spike upwards as investors digested the less dovish tone from the ECB and European stocks (impacted by a higher discount rate) took a hit. Market participants seem to be split in deciding whether monetary tightening will derail the economic recovery or whether gradual tightening could actually prolong the cycle. Political risks are still receding, or as Draghi said: "Political winds are becoming tailwinds", although not in the UK. Theresa May's snap election weakened her strength before the Brexit negotiations, and UK stock markets continued to underperform.

In addition to setting the market direction, the expected policy change also set off another rotation in the equity markets and value stocks were back in favour. As expected, the fund benefitted from this rotation and the overall style exposure of the fund accounts for this month's outperformance.

On an industry sector level, financial shares saw strong relative performance along with materials, while the more defensive sectors underperformed. This would normally have a positive impact on our relative performance, but within consumer staples, our food retailers were hit hard, as Amazon sent shock waves through the retail industry with its entry into brick-and-mortar retailing through purchasing the high-end food retailer, Whole Foods Market. Consequently, Sainsbury and Ahold were the two largest detractors in June.

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.