Sparinvest

Global 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 Global markets fell for the third consecutive month, as they gave up 1.0% (MSCI World). Meanwhile, the fund showed strong relative performance and was up 0.5% - a relative gain of 1.5%.

European markets were down 2.5%, as the solid victory for Macron were overshadowed by the ECB events in the last week. 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. Political risks are still receding though, 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. Meanwhile, US stocks changed little in reaction to the anticipated 25 basis point rate hike by the US Fed.

In addition to setting the market direction, the policy change also set off another rotation in the equity markets and value stocks were back in favour. As expected, the fund benefitted from the rotation and style exposure was a significant contributor. On an industry level, financial shares saw strong relative performance, especially in the US where the Fed approved the capital proposals of all 34 large U.S. banks in its annual stress test and the prospects of increased buybacks and dividends helped boost bank shares.

Stock selection was a positive contributor even though a few of our food retailers were hit hard, when 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

Global Value invests in global equities from developed markets, 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 regions.