Sparinvest

European Value

EQUITY

Fund lost in risk-off environment

Equities end good quarter with gains

Markets The end of March marked one of the strongest quarters in equity markets in recent years. With a 14.5 percent return in MSCI World (in euros), this was the strongest quarter in four years. The primary driver for the equity returns was probably the softer tones from both the U.S. and European central banks, which appear to have put further rate increases on hold in the imminent future.

Consequently, we have seen a large drop in market expectations for the short end of the curve. Despite strong equity markets, long rates across the regions also dropped heavily. German 10-year rates are now again negative and trading around -0.05 percent.

The U.S. yield curve inverted for the first time in a decade in March. So far, only the very short interest rates are higher than the 10-year rate – not to be confused with the normal spread between 2-years and 10-year rates. This is nonetheless a source of concern, since an inverted yield curve typically is seen as a reliable indicator for a recession within the subsequent 1-2 years.

Credit markets, however, were not negatively affected by the inverted yield curve. Both high yield credits and emerging markets government bonds posted strong returns in March, and the VIX index traded at quite low levels as well.

ECB caused headwinds for the fund

The Portfolio While the MSCI Europe index was up 2.03 percent, the fund lost 0.50 percent.

In the beginning of the month, the European Central Bank (ECB) unexpectedly changed course regarding its monetary policy in an effort to encourage stronger economic growth. The ECB kept the deposit rate steady and said it would not raise rates until at least next year while also announcing a new round of cheap financing for the banking sector. The decisions were consistent with the downward revisions to growth and inflation, which seemed to be hurting from Brexit risks (where members of parliament failed to find a majority for any alternative Brexit arrangement) as well as other temporary factors such as the indirect effects from the U.S.-China situation.

As mentioned often before, the drop in interest rates is better news for long-duration sectors and investment styles. Financials were hit hardest and saw negative returns as one would expect when bond yields fall. Consumer Discretionary was the second worst performing sector, as automotive stocks plunged on concerns that the U.S. might turn on Europe once its dispute with China settles. Defensive sectors like Consumer Staples, Real Estate, Health Care and Utilities outperformed. Similarly, defensive style factors like quality and minimum volatility outperformed at the expense of small cap and value. This led to strong headwinds for the fund, given its inherent value exposure and its slightly cyclical bias. Security selection was a small negative detractor. The negative security selection was very broad based and among the largest relative detractors were defensive benchmark names like Novartis and British American Tobacco not held by the fund, which both saw double digit returns.

Return is calculated gross of fees and excluding swing.

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.