FUND REPORT

March 2019

Sparinvest

Global 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.

Central banks cause fund headwinds

The Portfolio While the MSCI World index was up 2.74 percent, the fund was only up 0.30 percent.

In spite of increasing concerns over the health of the global economy, markets continued their upwards trajectory. In the beginning of the month, the European Central Bank unexpectedly changed course regarding its monetary policy in an effort to encourage stronger economic growth. The dovish move was 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. Similarly, it was forecasted that the Fed would not raise interest rates this year either and market expectations seemed to suggest that it may even be forced to cut them. This sent bond yields lower, which as mentioned before together with the concerns over the economic development encouraged optimism around defensive stocks.

Financials were hit hardest and saw negative returns as one would expect when bond yields fall. Industrials, Energy and Materials also underperformed, while defensive sectors like Real Estate, Consumer Staples and Utilities outperformed. This led to a minor headwind for the fund, given its slightly cyclical bias. From a style perspective, investors found safety in quality stocks while the fund's inherent value exposure was a drag on performance. 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 Apple and Amazon not held by the fund, which both gained about 10 percent.

Return is calculated gross of fees and excluding swing.

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.