Sparinvest

Global Value

EQUITY

US tailwind, drops in Europe

Strong markets, but lower Euro

Markets The first half of May was characterized by ceding risk willingness followed by stronger equity markets and risk appetite. Throughout the month, the US Dollar strengthened and rate expectations tightened for the US central bank.

The Momentum and Small Cap factors were strongest in May, and Value and MinVol were the weakest factors in equity markets. MSCI World (EUR) gave a total return of approximately 3,6%, the majority of which was caused by a weakening Euro. The long end US interest rates followed the stock markets closely, but long end, Germany interest rates dropped in the first days of May and remained low (10-Year yields at 0,18 %) for the rest of the month.

The unemployment rate in Europe was unchanged at 10,2 % and a number of indicators for the US labor markets also showed reading closed to unchanged. In May, we got the March-figures for US consumer credit, which increased the most in history. The real growth of final and real, US demand is currently holding up well at around 2,6 %, although the trend is fading slightly.

PMI-surveys for the Eurozone were relatively stable in May at slightly better than neutral levels. For the US, the ISM Non-Manufacturing (and Services) showed a strong come-back and New Orders were also somewhat strong despite ISM Manufacturing at 50,8, which is close to neutral (50) and therefore to the weak side.

Materials suffered

Performance The month of May started off a little subdued, while the second half of the month was more optimistic, supported by a recovery in oil prices following Canadian and Nigerian supply outages. The fund was up 3.57 %, and since the MSCI World Index returned 3.46 %, fund performance was satisfactory.

US stocks outperformed supported by the strong dollar, while Japanese and European markets were less strong. Due to a smaller overweight in Europe at the cost of US exposure, the geographic allocation was a relative detractor in May.

Regarding industries things have changed since April. While the steel and mining industry partied in April, hangovers set in during May. Falling iron ore and steel prices made materials the worst-performing industry sector in Europe. The fund has a small overweight in commodity-related companies. Materials is a very broad industry sector and we are not heavily invested in steel and mining. Nevertheless, the overweight in the sector combined with a corresponding underweight in well performing health care and consumer staples stocks, was a sizeable detractor in May. One of the best performing sectors within the fund was finance, where banks in Southern Europe had a tough month - a region where we have no financial exposure.

Including the gains in May, US stocks are now close to the record high levels of last summer. That might make investors nervous, especially since we have big events coming up. Other than the usual central bank decisions, there is still great uncertainty about the outcome and the consequences of UK's upcoming EU referendum. Therefore, June could be set for increased market volatility.

Strategy

The fund invests in value stocks. Through careful fundamental analysis, the team strives to identify companies that trade at healthy discounts relative to intrinsic value. A risk-aware approach to portfolio construction ensures a well diversified portfolio. The Fund pursues an active value investment strategy, which is the reason why performance may deviate from benchmark.