

Procedo EUR

BLEND FUNDS

US stocks underweight punished

Strong stocks but weak EUR

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 German 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.

Higher energy prices have not yet resulted in higher inflation figures in the US, which is currently experiencing headline inflation at 1.1%. The Eurozone is seeing headline inflation at -0.2%. Long-term inflation expectations (5Y5Y swaps) are virtually unchanged for the month in both the Eurozone and the US.

Momentum is back in the market

Performance The month of May showed strong returns in MSCI World (EUR) at 3.6%, though primarily caused by a weak Euro. US equities were (due to the strong USD) the region with the strongest returns (4,7%) and since the fund has a slight underweight to the US, the stock allocation delivered a slight underperformance in May. Momentum and Small Cap worked best as factors in May, while Value and MinVol were the weakest factors, actually underperforming.

The exposure to government and mortgage bonds benefitted from an overweight to mortgage bonds as well as lower rates across the entire curve. The exposure to HY corporate bonds delivered a relative outperformance on the back of higher commodity prices. Investment Grade corporate bonds were virtually unchanged for the month with a slight outperformance in the allocation. The strong dollar hurt EM government bonds slightly, but the fund's exposure actually outperformed and delivered (barely) positive returns for the month.

Strategi

The fund offers investors with long term investment horizons and/or high risk willingness a well-diversified portfolio with exposure to both equities, government bonds, mortgage bonds, corporate bonds and EM government bonds. The investment strategies are, where possible, implemented to ensure that investors benefit from academically and empirically well-proven factors, which lead to superior long-term risk-adjusted returns than a pure market exposure. For the equity allocation, this means that investors are exposed to both Momentum, Value and Size. The overall exposure to the different asset classes is strategic and no attempts to time the market are done. The equity exposure target is 65%, but deviations of up to 5%-points from the target allocation are allowed before rebalancing the portfolio.