

Balance EUR

BLEND FUNDS

Strong stocks and strong EUR

Lower interest rates despite good macroeconomic figures

During the month of May, macroeconomic releases still surprised analyst expectations positively – although not to the same degree as in prior months. The steepness of both the US and German yield curves continued to flatten – especially due to lower long-term inflation expectations, which caused long interest rates to decline slightly.

European unemployment surprised by declining more than expected and reached 9.3%. The important German IFO survey also came out better than expected and is now at the highest level since 2014. The leading indicators from OECD are still showing an increasing trend – however not as much as in prior months.

The EUR continued its rally in May, which was caused by a combination of strong macroeconomic releases from the Eurozone and the less political uncertainty after a number of elections, where Euro-skeptics were sidelined.

The equity market enjoyed a strong rally in May, but since the EUR strengthened by 3.3% to the USD, the MSCI World actually declined by 1% in euro-terms. The market is now a little complacent with low volatility and the VIX trading below 10, which is the lowest level since 2006.

Bonds contributed, equities did not

The US and Fareast equity exposures were ahead of their benchmarks, but especially the European equities (which are overweight) performed somewhat worse than their benchmark.

The strategy of the overall equity exposure is facing some headwinds currently, since the value-factor is lagging behind and even Momentum is yielding poor returns. Due to the very strong performance of value stocks in the autumn of 2016, Momentum strategies were exposed to value stocks over New Year, which the fund is now suffering from.

Both the exposure to long and short European bonds beat their benchmarks considerably due to the overweight to Danish mortgage bonds. The fund's exposure to the most risky (callable) Danish mortgage bonds has now been reduced because they simply got too expensive compared to their inherent risk (of negative convexity). With the current, scaled down exposure, the recent excess returns from Danish mortgages will most likely be somewhat lower going forward.

The exposure to high yield corporate bonds did well, but the Investment Grade corporate bonds suffered from an underweight to European issues.

See performance and fund data [Click here >](#)

Strategy

Balance is targeted at investors with a short investment horizon and/or low risk tolerance. The fund has a well-diversified exposure to equities, mortgage credit bonds, developed market treasury bonds, emerging market treasury bonds, corporate bonds and cash. The equities exposure is tilted to benefit from the value, small cap and momentum factors, and the exposure to corporate bonds is sought to be obtained through small issuers, low net debt and strong asset backing. For treasury and mortgage credit bonds, the strategy is to maintain a constant portfolio duration within a tight range. The overall exposure to the different asset classes is strategic and no attempt is made to time the market. The target equity exposure is 50%, but a deviation of +/- 5% is allowed before the portfolio is re-balanced.

