

European Value

EQUITY

Difficult environment for value

Key figures are still surprising

Markets 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 EUR-terms. The market is now a little complacent with low volatility and the VIX trading below 10, which is the lowest level since 2006.

A few shares performed well

The Portfolio The fund gained 1.4%, while the MSCI Europe Index gained 1.5%. As of the end of May, the fund has gained 9.1% YTD, while the index is up 9.4%. The fund's minor lag to the benchmark this year is dissatisfactory, but we note that value stocks in general trail the market, and that we are more than 2% ahead of the MSCI Europe Value index. Although, the global reflation narrative is still strong, the reflation trades from last year continued to suffer as Trump continues to cause uncertainty. The falling bond yields and the flattening yield curves create a hostile environment for value investors.

European market participants saw political risks recede as Emmanuel Macron comfortably beat Marine Le Pen to become France's next president. This resulted in European markets posting strong relative returns compared to other regions, well supported by the strengthening of the Euro. The best performing sectors of the month were Utilities, Telecom, Consumer Staples and Health Care – classic defensive sectors, where overall pricing has led us to have less exposure than the index. Consequently, industry and style exposures continued to weigh on the fund's performance in May.

On a positive note, a handful of the portfolio holdings saw strong performance, which helped mitigate the headwinds. Individual stocks like Ericsson, Maersk, OMV, Carrefour, Vodafone and AstraZeneca – all from different industries – outperformed its industry peers on the back of results announcements or other good news. For instance, our UK pharmaceutical company, AstraZeneca, was up more than 8% on a single day as one of its candidate drugs had encouraging results in a phase 3 trial.

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.