

## Ethical Global Value

EQUITY

# Political noise hits markets

## Eyes on Italy

**Markets** Despite uncertainty around the trade policies of the Trump-administration and the formation of a new Italian government at the end of the month, MSCI World (in euros) managed to rally by over four percent during May. The rally was mostly caused by a falling euro, which ceded three percent to the USD.

Due to higher growth and inflation expectations, in mid-May U.S. 10-year rates temporarily reached the highest level since 2011. European rates were somewhat unaffected by this increase, and late in the month, interest rates dropped significantly – especially in Europe – because of the attempted government formation in Italy, where the Five Star Movement and the League presented a joint program, which in many ways would be a challenge to the European cooperation.

The largest movements during the month were all linked to Italy where the stock market dropped eight percent and two-year government bond rates increased from -0.15 percent to almost 2.9 percent in the course of a few days.

Macroeconomic figures were generally disappointing in the Eurozone, but they were nonetheless still at decent levels. Eurozone GDP growth for the first quarter came out at 2.5 percent. U.S. macroeconomic figures were somewhat better, which caused the interest rate spread between the two regions to widen once again.

## Value stocks underperformed

**The Portfolio** In May, the fund gained 2.41 percent, somewhat less than the MSCI World index, which rose 4.15 percent. This means that so far in 2018, the fund is up 2.03 percent.

May saw value stocks overall perform relatively weakly. MSCI World Value rose around 2.3 percent, while MSCI World Growth rose 6.3 percent. That was a slight headwind for our fund, but there was something of a tailwind from our exposure to small and mid-cap stocks; MSCI World Small rose around 6.5 percent.

Given the developments in Italy, European equities generally underperformed the U.S. Financials were the weakest sector, suffering most in the month as concern over Italy pushed interest rates down. Compared to MSCI World, our fund has relatively high exposure both to Europe, and to financial stocks, and this partly explains the fund's lag to the index this month.

IT stocks rose over 10 percent. The key was Apple, which gained over 17 percent. We admire the company, but typically find it a little too expensive for a value fund.

Late May saw sharp oil price falls as Saudi Arabia and Russia hinted they might ease production curbs. However, over the month as a whole, Brent rose, WTI fell, industrial metals were reasonably strong, and the Energy and Materials sectors both rose over five percent in the stock market. The fund's overweight in those sectors was beneficial.

Among the fund's strongest performers were electronic component maker Vishay Intertechnology, which delivered strong quarterly earnings, and U.S. clothing retailer American Eagle. Like many U.S. retailers, American Eagle had been punished in the stock market last year due to sluggish same-store-sales and weak margins, but strong fundamental improvements have now led the stock to double from its 2017 trough

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

Return is calculated gross of fees and excluding swing.

### Strategy

Ethical 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. Ethix SRI Advisors performs an unbiased screening to ensure that only ethically sound companies are included in the portfolio.