

## Ethical Global Value

EQUITY

# Interest rates boost value

## Trump impacts markets

**Markets** The market had been nervously awaiting the US presidential election on the 8th of November. Ahead of the election, consensus was that Hillary Clinton would be the best president from an equity market perspective. At the same time, though, she was seen as the worst candidate for bond markets. None the less, when Donald Trump was elected, the equity market rallied strongly. Short-term interest rates were relatively stable, while long interest rates increased strongly.

Even ahead of the election, macroeconomic variables were improving in both the US and in Europe. The bond market's reaction is an indication that Donald Trump's proposed economic policy is seen as a potentially big easing of fiscal policy through large infrastructure programs, underfinanced tax reliefs and in some form of protectionism.

Since short interest rates and expectations were relatively stable, it appears that the bond market expects the Fed to not fully neutralize the inflationary impacts of Trump's policies. In the coming quarters, equities will thus have to price-in a double stimulus from both fiscal and monetary policies in the US.

The US dollar has rallied as a result of higher inflation, and interest expectations and US equities have had the strongest geographical performance in November.

## Continued market rotation

**The Portfolio** The fund gained 6.22% while the MSCI World index gained 4.82%. As of the end of November, the fund

has gained 9.45% YTD, while the index gained 7.52%. Last month we described how rising yields had fueled a sector as well as a style rotation within the equity market – a rotation that continued in November. This trend was more pronounced in the strong performing US market but clearly visible in Europe and Japan as well.

The biggest disparity in global sector performance was between financials and utilities. In our quarterly letter to shareholders, we argued that defensive dividend-stocks like utilities have been seen as bond substitutes for a long time, which has led to rich valuations as a result of the low interest rate environment. Rising yields have caused utility stocks to lag behind the index, while financials and other cyclical sectors have outperformed in the current environment. The fund generated some relative outperformance from its cyclical exposure and its underweight in defensive sectors such as utilities.

In terms of style, value stocks in general saw good relative returns concurrent with the yield increases – a significant tailwind for the fund, which dwarfed the negative impact from the fund's country allocation. Here our overweight in underperforming European stocks and underweight in outperforming US market was a detractor in terms of relative performance.

Impact from actual stock selection was relatively muted with the largest positive contributors, Discover Financial and Region Financial, clearly representing the style rotation mentioned above.

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

### 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 Adviors performs an unbiased screening to ensure that only ethically sound companies are included in the portfolio.

For further information we refer to the prospectus, the key investor information document and the current annual / semi-annual report of Sparinvest SICAV which can be obtained free of charge at the offices of Sparinvest or of appointed distributors together with the initial statutes of the funds and any subsequent changes to such statutes. Investments are only made on the basis of these documents. Past performance is no guarantee for future returns. Investors may not get back the full amount invested. Investments may be subject to foreign exchange risks. The indicated performance is calculated Net Asset Value to Net Asset Value in the fund's base currency, without consideration of subscription fees.