

## European 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 0.39% while the MSCI Europe index gained 1.09%. As of the end of November, the fund

has gained 1.53% YTD, while the index lost 3.09%. 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. Although the trend was more muted in Europe compared to the US, it did have an impact on relative performance.

The biggest disparity in European sector performance was that 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 – another tailwind for the fund. Meanwhile, the fund exposure to small and mid-cap stocks was a detractor, as they could not keep up with the index.

Among the smaller stocks in the portfolio we also find the worst performance in November. British sausage casings producer Devro issued a profit warning in the beginning of the month which sent the share price down more than 17% on the day. The Dutch construction company Heijmans also took a dive following its Q3 trading update.

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.

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.