

## Ethical Global Value

EQUITY

# Good month for equities

## U.S. economy regain traction

**Markets** The month of September was characterized by several changes in recent trends. Long interest rates increased as a result of especially stronger European macroeconomic figures. U.S. macro releases have not impressed analysts in recent months, but in September, the U.S. economy regained some traction and U.S. 10-year rates increased 20 basis points, whereas German rates only increased by about half that.

The interest rate spread between the German and U.S. government bonds widened again in September, which led to a halt in the rally in EUR/USD. Higher growth expectations led to a rally in the price of oil of almost 10 percent and long-term inflation expectations (5Y5Y inflation swaps) increased moderately.

Equities did well in September with MSCI World (EUR) rallying 2.9 percent. Both small cap and value equities performed well and investors could benefit from the Momentum factor. Minimum Volatility stocks underperformed in September.

In credit markets, high yield corporate bonds were doing well – helped by the macroeconomic outlook, where leading indicators still showed that we could expect further improvement in growth rates across the OECD countries over the coming six months – but especially in Europe and Japan.

## Solid excess return

**The Portfolio** September was a good month. The fund gained 5.23 percent, while the MSCI World index gained 2.82 percent.

The relative gain of 2.41 percent was caused by the style and sector rotation that started around September 11, after a weekend without North Korean missiles and hurricane Irma losing momentum. In Europe, the German election did not cause volatility in the markets, but uncertainties regarding the Brexit negotiations and the Italian election still put political risk at an elevated level. However, market participants continue to believe that we are getting closer to a normalization of the European Central Bank's monetary policy, which put an upward pressure on bond yields.

The increased appetite for risk led to a rotation where investors sold bonds to buy equities, and sold defensive equities to buy more cyclical exposures. We have often described how rising rates are linked to value outperformance, and it also showed to be the case this month. Towards the end of the month, US President Trump released the latest plan for a tax reform, which included a corporate tax reduction. The reform is like to effect the whole economy as well as corporate profits but it should have an even larger effect on small caps, which outperformed in the following days.

The relative outperformance was due to the inherent value and small cap exposure of the fund along with an overweight in U.S. financials and cyclicals in general. Solid stock selection added to the outperformance, where U.S. chipmaker, Micron, was the largest contributor. The company reported better-than-expected earnings and revenue and was up 23 percent.

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 Advisors performs an unbiased screening to ensure that only ethically sound companies are included in the portfolio. Returns are calculated gross of fees and excluding swing.

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.