

## European Value

## EQUITY

# Good month for equities

## U.S. economy regained 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 4.59 percent, while the benchmark gained 3.94 percent.

As a result, European stocks had the best month this year due to continued impressive economic growth, which gives rise to earnings growth in European companies.

The overdue German election did not create turmoil in the markets, but there was still uncertainty in relation to Brexit negotiations and in the forthcoming Italian election, EU-critical voices spell. Nevertheless, market expectations towards the European Central Bank increased due to the economic development coming closer a normalization of monetary policy, which helped push interest rates up.

The excess return of the month of 0.65 percent. was due to the sector and style rotation that started around September 11 after a weekend without North Korean missiles and where Hurricane Irma began to decline in strength. The increased risk of appetite led to a rotation where investors sold bonds to go into shares and preferably value shares or more cyclical shares. We have previously described how rising interest rates are often beneficial to value investors, and this proved correct once again.

Therefore, it was no surprise that the excess return for the month was largely the result of value and small-cap exposure, but also the overweight in energy shares. Generally, more cyclical shares contributed to the excess return. There was a less negative contribution from the share selection, where Maersk followed the freight rates despite news about both divestment of Maersk Tankers and possible sale of Maersk Drilling. The share fell 7 percent and thereby dragged down the total excess return by 0.3 percent.

Return is calculated gross of fees and excluding swing.

See performance and fund data

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## 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.