FUND REPORT

Q3 2018

Sparinvest

Balance EUR

BLEND FUNDS

Even greater optimism led to higher rates

Trade war and higher rates

Markets Trump's trade war is still on, but during the third quarter, an agreement, entered between the U.S., Mexico and Canada (USMCA), should be the predecessor to NAFTA. Furthermore, Trump is negotiating with South Korea, the EU and Japan, and these negotiations look promising.

Overall, Trump looks to be satisfied with more or less symbolic changes favoring the U.S. in most cases – although China should not expect to be let off the hook so easily.

Global equity markets delivered solid returns in Q3. MSCI World (in euros) gave investors 5.7 percent, where only a minor part was due to a weakening of the EUR vs. the USD; 0.7 percent.

Most soft data is incredible strong these months – especially in the U.S., where tax cuts and deregulation is providing strong support for an already lofty optimism in the small and midsized company segment.

Due to optimism, extremely tight labor markets, higher wage growth and inflation, the FOMC decided to continue tightening monetary policy by hiking the Fed's funds rate by 0.25 percent to 2.25 percent at the end of September. Markets expect the rate to be around 3.0 percent in mid-2019.

Strong equities, weak bonds

The Portfolio delivered a solid return a little behind its benchmark in Q3. The equity allocation (50 percent) was by far the largest contributor, since both the U.S., European and Japan equities delivered solid returns. Only the Pacific Ex Japan region had negative returns.

The European and Japanese equity allocations beat their respective benchmarks, while the U.S. and Pacific Ex Japan had lower returns than theirs. The fund's equity strategy based on a double sorting on Value and Momentum generally underperformed during the quarter.

The allocation to EM government bonds delivered solid returns despite the volatility related to Turkey and South Africa during the quarter. The exposure was quite defensive and as the turmoil unfolded, the sell-off was used to buy cheaper, risky asset – but not in the two mentioned countries.

The corporate bonds strategies did quite well during the quarter and handsomely beat their benchmarks.

The largest, negative contribution came from the short and long high-grade (AAA) bonds, which suffered from the greater optimism in the U.S. and thereby higher interest rates. The exposures nonetheless performed better than their benchmarks due to the higher carry in the Danish mortgages.

Return is calculated gross of fees and excluding swing.

See performance and fund data Click here ›

Strategy

Balance is targeted at investors with a short investment horizon and/or low risk tolerance. The fund has a well-diversified exposure to equities, mortgage credit bonds, developed market treasury bonds, emerging market treasury bonds, corporate bonds and cash. The equities exposure is tilted to benefit from the value, small cap and momentum factors, and the exposure to corporate bonds is sought to be obtained through small issuers, low net debt and strong asset backing. For treasury and mortgage credit bonds, the strategy is to maintain a constant portfolio duration within a tight range. The overall exposure to the different asset classes is strategic and no attempt is made to time the market. The target equity exposure is 50%, but a deviation of +/- 5% is allowed before the portfolio is rebalanced.