

AND THEN THERE WAS ONE

One market and one stock dominated June

Markets gained again in the month with the MSCI World Index rising by 3.35 percent. However, amongst major markets, the U.S. was the only market to post significant gains. Within the U.S., market returns were increasingly dominated by artificial intelligence poster child, NVIDIA. Depending on which domestic market index is used, NVIDIA accounts for 30-40 percent of U.S. market returns, a level of market concentration unprecedented in the past two decades. NVIDIA was briefly the most valuable publicly listed company in the world, before a modest sell-off at the end of the month.

European markets were slightly down overall. However, French equities declined significantly in the face of snap elections for the National Assembly, called by President Macron after opposition parties performed well in elections to the European Parliament. The decline in French equities were caused by the subsequent political uncertainty, with markets concerned by the threat of an opposition led Assembly undoing many of President Macron's pro-market reforms.

European and U.S. bond markets were largely unmoved by the political uncertainty. Early in the month the ECB reduced rates by 25 bp, in line with market expectations. Market expectations for U.S. rates to receive their first cut in this cycle from the Federal Reserve are now focused on the September meeting, as U.S. inflation figures declined further towards the target 2 percent level.

Commodities were mixed in the month with oil prices rising, driven by output cuts from the OPEC+ cartel of oil producing nations. However, key metals such as aluminum and copper declined in the month, reflecting concerns over economic weakness in China and Europe, as well as a potential economic softening in the U.S.

Value struggled in theme driven markets

The Portfolio returned -3.82 percent, while the MSCI Europe Index returned -0.98 percent. The value style was a meaningful detractor to performance as value underperformed growth. This was reflected in the return of the MSCI Europe Value Index which posted a loss of 2.16 percent. The weakness of the value style, however, at least partly, reflects the strength not of a broad growth style but the strong performance of a few large European benchmark names, ASML and Novo Nordisk, representing two popular stock market themes, AI and weight loss drugs.

Not owning the two stocks led to 70 bp of underperformance in June. Relative to the MSCI Europe Value Index, the portfolio underperformance was due to a combination of negative impact from industry exposures, stock selection and style returns due to the portfolio having a greater exposure to the value factor than the index.

Two sectors posted positive returns: Information Technology was the strongest sector in the month, due to the strong performance of ASML amongst others, and Health Care where Novo contributed strongly. Economically sensitive sectors like Industrials and Materials were among the weakest performing sectors and a slightly more cyclical bias in the portfolio added to the underperformance.

Stock selection was negative. Pharmaceutical giant GSK was among the largest detractors as its shares plunged almost 10 percent early in the month due to a negative court ruling relating to the discontinued heartburn drug Zantac. Other holdings showed good performance. German engine manufacturer rose almost 20 percent as it was reported to consider supplying engines for wheeled tanks, armored personnel carriers and supply vehicles and shares of the packaging company, DS Smith, climbed higher as complications related to International Paper's takeover plans evaporated.

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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.

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