Fund report, July 2024
European Value
Equities

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Market breadth showed signs of improvement

Markets once again saw a positive return in the month, with the MSCI World returning 0.79%. However, underlying the positive return was a significant rotation within the market, as the few mega-caps that have held sway for over 12 months experienced a sell-off, and parts of the market that have struggled showed good performance. Notably, small cap stocks outperformed the broader markets. The MSCI European small cap returned 4.26% compared to the MSCI Europe index return of 1.17%, whilst in the U.S. the MSCI USA small cap return of 6.65% beat the MSCI USA return of 0.26%.

The catalyst for the market rotation in the month was a rising expectation, both in Europe and the U.S., for interest rates cuts through the end of 2024, leading to an improving economy that could benefit a wider range of companies.

Geographically there was little to choose between equity markets in each of the major regions. However, during the month, the Japanese Yen had a significant rally as expectations grew for a rate increase from the Bank of Japan. The MSCI Japan index declined by 1.04% in local currency terms but rose by 4.79% in euro terms.

Markets generally overlooked the political events of the month, which began with no clear winner in the French National Assembly elections and the Labour Party in the UK winning a significant majority. An assassination attempt on Republican candidate Donald Trump was followed by President Joe Biden withdrawing from the Presidential contest, with President Biden backing his Vice President, Kamala Harris.

Value recovered but small caps drove ahead

The Portfolio returned 2.31% in the month, ahead of the MSCI Europe Index return of 1.17% in a month where the value style of the fund was a positive contributor to performance, but also the fund's small cap bias contributed positively to outperformance. The fund underperformed the MSCI Europe Value index return of 3.48% as the fund suffered from relatively more cyclical exposure, minor geographic differences and some negative contribution from stock selection.

On a sector level, defensive sectors like Utilities, Consumer staples and Health Care outperformed the wider market. Financials and Industrials performed relatively well, but other cyclical sectors like Materials, Consumer Discretionary and IT underperformed meaningfully.

In aggregate, stock selection had a relatively neutral impact when measured against MSCI Europe, but a negative impact against the MSCI Europe Value Index. Not owning larger position from the value index such as Novartis and British American Tobacco explains some of the negative selection, but there were also disappointing results among some of the portfolio holdings. Automaker Stellantis was the worst performing stock in the portfolio and one of the largest detractors overall, as it and other global automakers reported disappointing results due to weakening demand and a challenging transition to electric vehicles. However, the portfolio also benefitted from some individual strong performers. German healthcare company Fresenius was the most positive contributor, as the company reported stronger than expected earnings for the prior quarter.

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.