

SELL-OFF, WHAT SELL-OFF?

Stocks eked out a gain after a sharp drop

Markets began the month with a significant sell-off as weaker than anticipated U.S. labor and manufacturing data combined to raise concerns of a recession in the U.S. with the Federal Reserve (Fed) being perceived as too slow to begin its easing cycle. This rising recession risk led to a significant sell-off in markets, focused on some of the more highly valued areas of the market such as technology as well as those stocks considered cyclically sensitive. Following the lead of the U.S., Japanese stocks had their largest one-day drop since 1987 as an unexpected rate rise from the Bank of Japan led to a strengthening of the Japanese Yen and a sharp reduction of Japanese stock prices that had performed extremely well during the first half of the year.

By the end of the first week of the month the MSCI World index had declined by almost 8%. However, as quickly as market sentiment soured, the recovery began and the MSCI World Index ended the month in positive territory, rising by 0.30%. Comments from Fed chair Jerome Powell, at the annual Jackson Hole central banker's get-together, further calmed markets as he reinforced expectations for the Fed to begin monetary easing. This pattern was followed by most major markets, with even Japanese equities, that had declined by almost 20% early in the month, ending down only 1.74% in the month.

U.S. treasuries rallied on the economic news as expectations for a September rate cut from the Fed grew. Commodities were generally weak in the month as demand fears rose. Economically sensitive commodities such as oil and copper fell during the month.

Value struggled to keep up with market moves

The Portfolio returned -1.23% in the month, below the MSCI World return of 0.30%. The primary source of underperformance was the investment style of the fund, which suffered from the underperformance of the value style as well as a negative impact from the fund having a greater exposure to smaller-capitalization stocks which also underperformed the broader market. Stock selection was a modestly positive contributor to performance against the MSCI World. Relative to the MSCI World Value, which returned 0.49% in the month, the fund underperformed due to both its exposure to smaller capitalization stocks, its more cyclical value exposure as well as stock selection being a slightly negative detractor. The MSCI World Value index performed better than the MSCI World index, despite the weakness of the value style, as the MSCI World Value index doesn't contain the handful of highly priced mega-cap technology stocks that pulled down market performance in the first part of the month.

More defensive sectors such as Utilities, Health Care and Consumer Staples were amongst the stronger performing sectors in the month. Economically sensitive sectors such as Energy and Consumer Discretionary were the weakest sectors as concern grew over the strength of the economy.

Stock selection was a small positive contributor to performance in the month against the broad market MSCI World index. European communications equipment manufacturer Nokia was a strong performer in the month as the market speculated over potential bids for parts of the company. UK pharmaceutical company, Glaxo, also had good performance in the month as it received approval for several new drugs.

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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.