Fund report, September 2024
European Value
Equities

Sparinvest

# FED STARTS TO EASE

### Fed surprised markets with large rate decline

Markets had positive returns for the fifth month in a row as markets rebounded from weakness in the first week of the month. Markets began the month with declines due to concerns related to continued economic weakness in China, weakening U.S. economic data and a fizzling of the artificial intelligence related market enthusiasm. However, benign U.S. inflation data raised market hopes that the U.S. Federal Reserve could begin to reduce interest rates to support a softening economy. Later in the month, the Fed duly delivered and more, with a cut of half a percent, which was above market expectations. This interest rate cut, combined with more tangible evidence of government support of the economy in China, led to strong markets in the final two weeks of the month.

MSCI World returned 1.00% in the month. The U.S. was a strong performer as U.S. equities strengthened with the rate declines. Although European markets in aggregate declined, with the MSCI Europe index falling by 0.44%, several major markets, most notably Germany, posted strongly positive returns. German equities closed the month at close to record highs buoyed by an improving export environment due to stimulus in China as well as some takeover activity for German companies.

Despite stimulus measures around the world, oil prices declined during the month as anemic demand failed to push major supplier countries to cut production. However, major industrial metals experienced strong rallies as expectations rose of demand increases from an improving Chinese economy. Copper, aluminum and nickel all rose significantly in the month.

### Style impact muted in a cyclical market

The Portfolio returned 0.15% in the month, ahead of the MSCI Europe return of -0.44%. The fund's value style was a net positive contributor however it was only a modest component of the outperformance. Sector allocation was also a modest positive, driven by the fund's underweight to Information Technology and overweight in Materials. The MSCI Europe Value Index returned 0.45% in the month, above the return of both the portfolio and the MSCI Europe Index. Relative to MSCI Europe Value, the stock selection was a negative contributor to the fund's outperformance which offset a small positive contribution from both style and sector allocations.

Energy and Health Care were the worst performing sectors in Europe. Energy stocks declined due to the weak oil price, and the Health Care sector was impacted by sharp declines from some large pharmaceutical companies like Novo Nordisk, who saw its stock price drop by 16%. The Materials sector gained the most due to the economic sensitivity and hopes that China's stimulus pledges could lead to a recovery in demand for many commodities.

Stock selection against the broad market was neutral, but the positive contribution from not owning Novo Nordisk was offset by a few holdings that disappointed during the month. Auto producer Stellantis was one of the largest detractors. It dropped almost 15% on the last day of the month as it cut its profit margin forecast for the year. However, there were also strong performing stocks in the portfolio and Philips gained more than 8% as market expectations grew that the company would continue to benefit from its operational efficiency investments.

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.