Schroders

April 2023

Schroder Global Value Fund (Hedged) (Wholesale Class)

Fund commentary

The strategy finished April behind the MSCI AC World index. Positive contributions failed to completely offset headwinds from deeper value positioning and the continued resilience of the big tech stocks.

As was the case during the first quarter, a lower exposure to the tech giants in both the US and Asia was the largest single headwind for the strategy during the month. In the US especially the market has been driven higher by the strong performance of the index heavyweights, whilst the average stock has not fully participated in this year's re-rating. As commodity markets weakness continued, holdings within energy and materials sectors were a significant drag on returns in April. Deeper value exposure to miners, with holdings diversified across industrial metals and specialist electric vehicle materials (i.e. lithium), as well as exposure to integrated oil & gas names, detracted.

Strong stock selection in financials helped offset some of the headwinds faced over the month. Our favoured banks outperformed in light of solid Q1 results and an easing of tensions in the banking system, with positive contributors broad based across a range of high quality names. Globally diversified holdings in insurers were also beneficial as the industry outperformed. As defensives rebounded in April our larger weight in affordable defensive quality, including home products, pharmaceuticals and telcos, also supported relative performance.

The strategy continues to be well diversified by stock, geography and industry, and exposed to multiple facets of value and quality. We expect such diversification will reduce idiosyncratic risk amidst the ongoing volatility. The strategy maintains its material underweight to technology, especially within application software and hardware. We also maintain our longstanding underweight to real estate which we view as unappealing in valuation terms and exhibiting low quality characteristics. At the end of the month, the largest overweights in the strategy were within resources and financials. Notably, within banks, we continue to focus on those with balance sheet strength and strong asset quality. The strategy also has large relative overweights to communications (telecoms).

From a regional perspective, the strategy is underweight to the US which is still more richly priced versus other developed and emerging markets. The US remains a source of funding for a broader overweight across Europe, the UK, Japan and Emerging Markets.

Market review

Global equities had a mixed month, with developed markets posting modest gains while emerging markets declined. In contrast with the opening months of the year, April saw lower levels of volatility, with markets mostly treading water against a backdrop of uncertainty due to ongoing concerns regarding the US banking sector. Still high inflation alongside concerns around slowing growth also hamstrung sentiment. A positive start to the US earnings season did however provide a more positive tailwind.

US economic data provided conflicting signals regarding inflationary pressures. While there have been some signs of a slowdown in economic activity, inflation remains well above central banks targets and elements of inflation remain sticky, creating a policy dilemma. Adding to the mixed data, the first quarter earnings season has so far been better than feared. This positive momentum supported risk assets despite further stress in the banking industry, with nine of the eleven sectors positive in April, some of the strongest being staples, communications, financials, and health care. In contrast, more cyclically-sensitive sectors such as technology, materials, consumer discretionary and industrials all took a breather. Mega cap growth names continued to perform well, most notably Meta, following a well-received earnings update.

Regionally, economic data in both the Eurozone and UK generally surprised to the upside, which, supported equity markets. All sectors in the Eurozone advanced during the month aside from information technology, driven by weakness in semis, with the top performing sectors including energy and real estate. Meanwhile, UK equities rose over the month. Financials were one of the top contributors, driven in large part by a relief rally in the banking sector while energy and consumer staple sectors also contributed, driven by globally diversified names.

Within emerging markets, geopolitical tensions weighed on Chinese equities. Adding to this, potential US investment regulations also meant that communication services and consumer discretionary stocks were particularly badly hit. This underperformance resulted in EM Asia being the worst performing regional equity market, with positive returns outside of Asia helping partially offset this.

Important Information