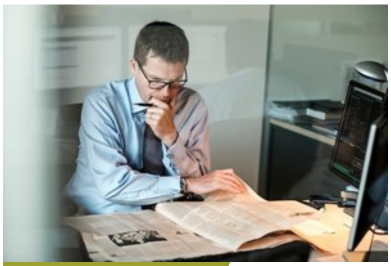
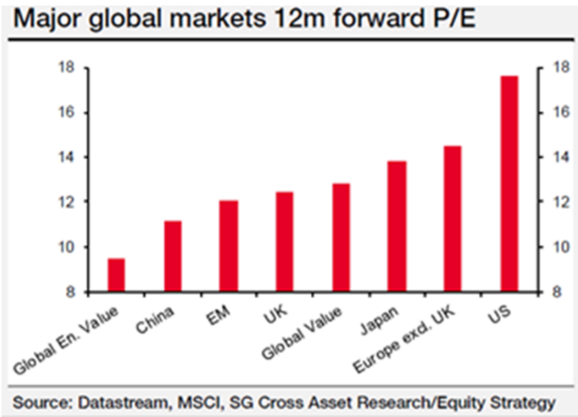


Friday Morning Coffee

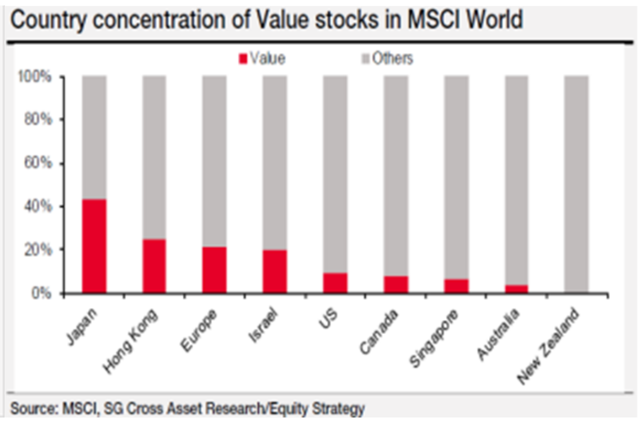
Nr. 81 — Slice and dice

One of the remarkable things in our industry is the large amount of data available to us as financial analysts. We have decade long histories of share price series and valuation data at our disposal. We also have now the computing power to process this data. Does this make us better investors or are we torturing the data long enough, so they eventually give in and confirm our inner beliefs? Not sure. As we are approaching the end of the year, we are being bombarded by strategist notes and invitations to conferences on the perspectives for 2020. The resources put behind these forecasting efforts are considerable and, unfortunately, the results over the years appear often not so conclusive. From our perspective, we view these notes as a useful source of information backed by substantial quant work on where we stand in the financial markets. **As bottom-up investors, the real decision-making tool is however our fundamental work on the individual companies we look at.**

In their equity strategy piece "The Big Picture: Outlook 2020 – All is well …" published Thursday this week, the quant research team from Société Générale presents their market views and outlook. **We will not argue about how much improvement of the leading indicators, the Eurozone PMI's, is already discounted in the cyclicals since their recent rebound.** What we find more interesting are the 2 graphs below which are comparing the valuations of the main regional stock-markets and the % of value stocks that can be found in the different regions.



Source: Société Générale



Source: Société Générale

On the left graph, we can see that the real outlier in terms of valuation is the US with a forward price / earnings ratio approaching 18 times. China, emerging markets, UK, Japan and Europe are trading at substantial discounts to the US. The fact that the US is expensive is clearly not a surprise: however Japan, Emerging markets and China are now looking cheap to us.

Friday Morning Coffee

Nr. 81 — Slice and dice

The right graph gives the concentration of value stocks in different regions. The most undervalued large cap stocks are here being selected globally according to classical valuation ratios. Then they are being split by regions. In the US there are less than 10% value stocks left in the universe, in Europe still a reasonable 20% and in Japan an astonishing 40%.

Conclusion from the above is that valuation in Europe still looks relatively attractive on a global level and that there are still a reasonable amount of investment opportunities around for the value investor. A look at Asia would also be on the menu for the global value investor, but that is not our main mandate.

I wish you a nice weekend.

Léon Kirch, CFA
Partner & Chief Investment Officer
November 22 nd, 2019