



Friday Morning Coffee

Nr. 83 — St Nicolaus finally coming to Valueland!

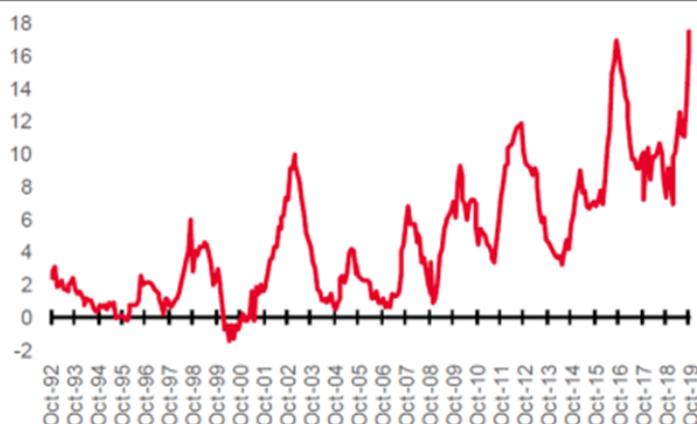
A year ago, we published a morning coffee with the title “No chocolate for St Nicolaus” where we made the point that value investors had been voted down by Mr Market and that the value investment style had generated significant losses in 2018, more than we would have expected from an investment approach putting preservation of capital and valuations in the foreground of its analysis. Therefore, we would not receive any chocolate for St Nicolaus, a local habit where the children who behaved well receive candies and gifts. How about 2019 ? Did value investors behave well and should be rewarded ?

While value strategies underperformed the broader market and their growth peers, they indeed generated positive performance. What we find remarkable however is that value is staging comeback since the end of August. **We deem this a logical consequence of improving economic leading indicators, excessive investor pessimism on cyclical companies invalidated by the latest quarterly results and record valuation discounts of value stocks compared to the broader market.**

There is also another important factor at play : the perspective on interest rates. Strategist Andrew Garthwaite from Credit Suisse recently made that case that he expects Bund yields to turn positive in 2020, while Europe’s growth stocks currently discount a 10 year bund yield close to -1%. He also makes the point that the relative Price -to-Book premium of growth against value remains close to tech bubble levels.

SG Research is asking the relevant question whether investors should be taking some profits on their expensive bond proxies and redeploy cash into value stocks. **The bond sensitivity of the value / quality strategy is indeed at all-time highs. For every 1bp move upwards in US bond yields, Value would outperform Growth by 17 bps. In Europe, the relationship would be even more extreme: for every 1 bps upwards move in German bond yields, value would outperform by 25 bps.** So if we assume that Credit Suisse is right and German 10 year bond yields move from -0.32 % to 1%, that would result in an outperformance of 33% ! That would be our nicest St Nicolaus gift to us in history.

**Bond sensitivity of the Value/Quality strategy is at all-time highs
(52-week beta of Value vs Quality beta to 10-year US bonds)**



Source: “SG Research Global Style Counselling: Why should you still buy some Value stocks”

Friday Morning Coffee

Nr. 83 — St Nicolaus finally coming to Valueland!



Hopefully St Nicolaus will not look too far back in the rear mirror while assessing we deserve chocolate this year. **If I meet him tonight, I will tell him he better keep his value troops motivated with some chocolate in order to finance his retirement as we do not see a lot of alternatives to value investing and European equities.**

Have a great weekend,

Léon Kirch, CFA
Partner & Chief Investment Officer
December 6th, 2019

European Capital Partners (Luxembourg) SA ("ECP") is responsible for the publication of this promotional document. ECP is an asset management company based in Luxembourg, registered at JF Kennedy avenue 35a, L-1855 Luxembourg (RCS Luxembourg, B 134.746) authorized as an Alternative Investment Fund Manager ("AIFM") of the Luxembourg law of 12 July 2013 and supervised by the Commission de Surveillance du Secteur Financier (CSSF). This document is published for information purposes only and gives the opinion of the Investment team at the time of the publication. It does not constitute an offer to buy or sell financial instruments or investment advice and does not confirm any transaction unless expressly agreed otherwise. Although ECP carefully selects the data and sources used, errors or omissions cannot be excluded a priori. ECP cannot be held liable for any direct or indirect damage resulting from the use of this document. The intellectual property rights of ECP must be respected at all times; The contents of this document may not be reproduced without prior written consent. Any investment involves risks, such as the risk of loss of initial capital. Please read the Prospectus of Selected Funds, their Key Investor Information Documents (KIIDs) and financial reports before making an investment decision to understand their specific risks, costs and conditions. Those documents are available on www.ecp.lu. Past performance does not guarantee future performance. Please refer to an independent tax advisor for country tax information that can change at any time and analyze the tax impacts of any investment on your personal situation.