



## Friday Morning Coffee

### Nr. 102 — Double top

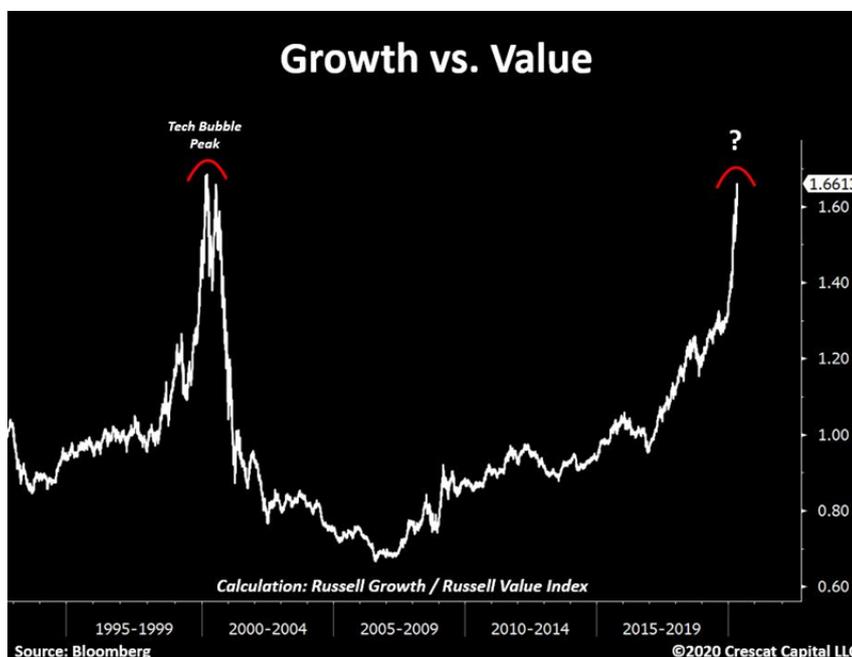
On the surface, market commentators may easily come to the conclusion that there is a growing gap between the real economy and the stock markets.

The economic impact of the crisis is being felt more painfully day by day. Unemployment in the US is rising from 4% to 16% with more than 20 million jobs destroyed in April alone. **IMF states that the global economic outlook has continued to worsen since mid-April and is now forecasting that developing nations financing needs probably will by far exceed the 2.5 trillion USD the IMF has projected previously.**

Despite these news, financial markets have attempted an impressive recovery since the troughs in mid March. The S&P 500 is now back to levels of August last year, a time when restaurants and bars were still packed, lock-down and social distancing were unknown concepts and the sky was full of planes.

The main indices are however not at all representative of the real economy as shown with the 2 examples below:

1. The recovery in the S&P 500 has been driven by the usual tech suspects Alphabet, Amazon, Apple, Facebook and Microsoft who now represent 1/5th of the S&P 500. Beyond these tech darlings the situation in the US stock market is much more nuanced as shown by the below graph from Crescat Capital :



Source: Bloomberg, Crescat Capital LLC

The traditional value stocks have not recovered in the same way than the growth stocks and their underperformance has reached levels unseen since the bursting of the tech bubble. There may be good reasons for the underperformance of value like technological disruption and low interest rates. This gap however appears extreme to us: Ottavio Costa from Crescat speaks of a double top in value.

## Friday Morning Coffee



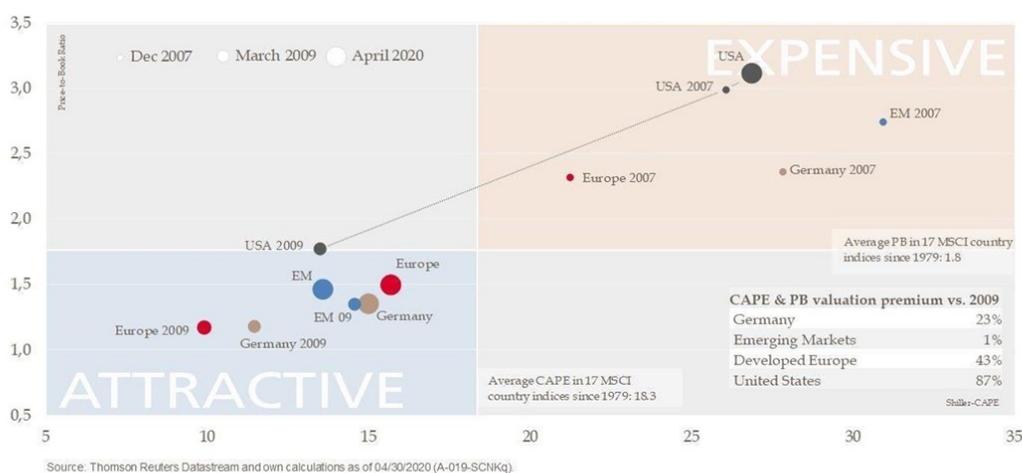
### Nr. 102 — Double top

2. The US stock market is more the exception than the norm. Emerging markets and Europe now trade at much lower valuation levels in terms of cyclically adjusted PER and Price to Book. Unlike the US, they also trade at the valuations comparable to the ones seen during the financial crisis as can be seen from the below graph from StarCapital :

StarCapital Research

### Stock market valuation compared to the financial market crisis in 2009

Emerging markets are trading at the 2009 lows, while the US is more expensive than in 2007



Source: StarCapital Research

To conclude, when looking below the surface stock prices of many businesses have painfully adjusted to the pandemic and reflect the current economic reality. This is especially true for value stocks and European / Emerging market equities. This is where the opportunities for the long term investors lie. We should not be completely blindfolded by the valuations of some US tech darlings, they may be good companies but could be priced for perfection.

Léon Kirch, CFA

Partner & Chief Investment Officer

May 8<sup>th</sup>, 2020

I wish you a nice weekend,

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](http://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.