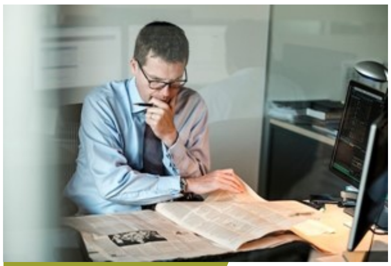


Friday Morning Coffee

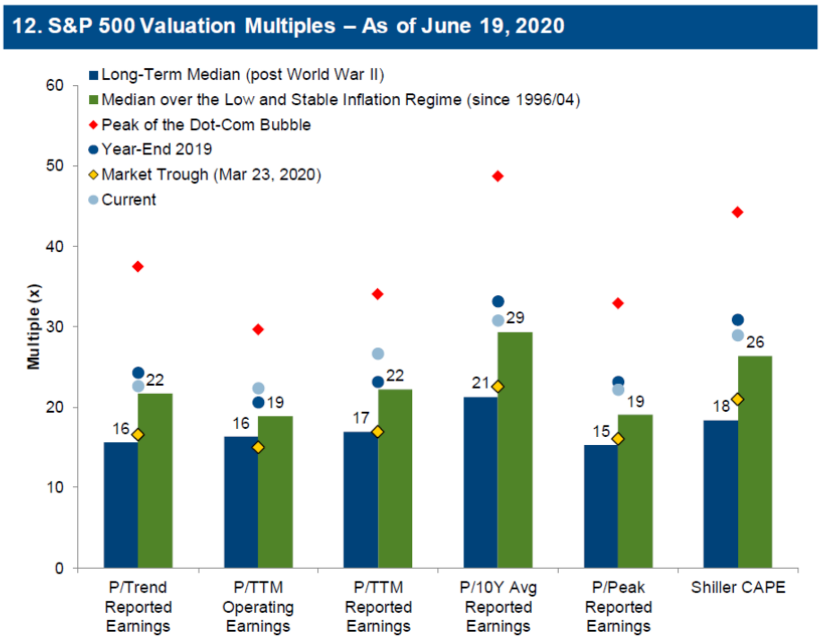
European Capital Partners

Nr. 109 — Should I stay or shall I go?

The current mood in the equity markets reminds us sometimes of the song by the Clash : "Should I stay or should I go now? If I go, there will be trouble. And if I stay it will be double. So come on and let me know …". While still down 14% since the beginning of the year as of Wednesday this week, Stoxx 600 has rallied an impressive 28% since the through on March 18th. There is a sentiment that the fear of missing out (FOMO) is driving back many (often retail) investors into the equity markets. This is mainly based on hopes for a V-Shaped economic recovery after the lock-down. However, while economic sentiment is clearly improving, the battle against the COVID-19 is far from won and the economic damage caused by the pandemic should not be underestimated. This will be evidenced during the Q2 result season that is approaching now. The pandemic may also well come back with a vengeance as European countries are coming out of the lockdown and new infections are on the rise as social life starts again. 1500 new infections within days in a pork slaughter house in Rheda-Wiedenbrück are an example of how far we are still away from resuming our normal activities and that "smart" regional lockdowns may stay with us for a while.

Massive central bank intervention and government support explain to a large extent the recovery in financial assets. The rally has so far been concentrated on a few "leaders" while many stocks have been left behind. In today's morning coffee we wanted to provide 2 additional arguments for staying invested in today's stock market :

1. **Market valuations are not as stretched** in a historical perspective as some commentators want to make us believe. This point becomes apparent in the below diagram from Goldman Sachs showing that on most multiples for the S&P 500 is not excessively higher than what has been seen over the 75 years in low and stable inflation regime.



Source: Investment Strategy Group, Bloomberg, Robert Shiller. Goldman Sachs

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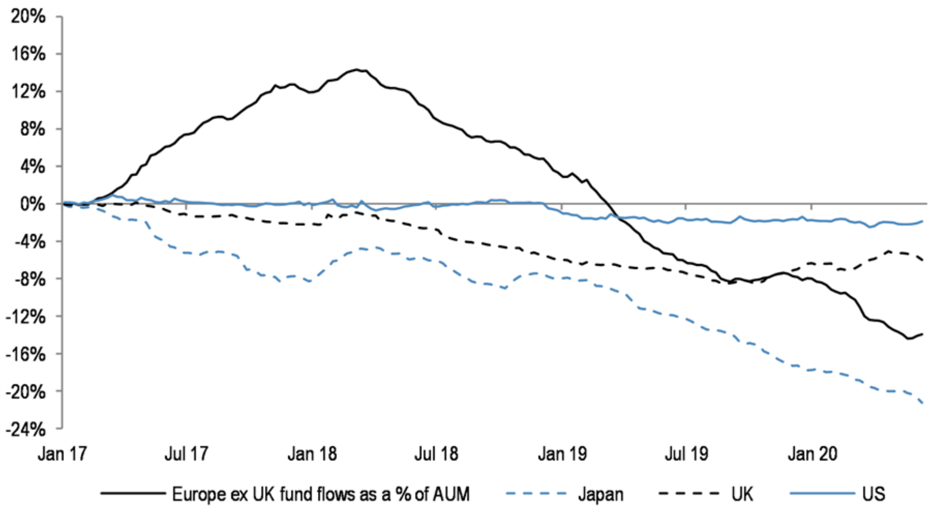
2. The recent rally had actually a **low participation rate** as most institutional investors stayed on the sidelines. Flows into equity Funds are still negative as shown by JPMorgan. We view this as a good sign as the market does not appear overbought.



Source: JP Morgan

At ECP, we are long term investors and we are not even trying to time the market. We are not spending much time into guessing the v, V, w or J form of an economic recovery either. Our full focus is on selecting quality companies with solid balance sheets and business franchises that are able to produce solid earning power in normal circumstances. However, when we are back to normal remains to be seen….

I wish you a nice weekend,

Léon Kirch, CFA
Partner & Chief Investment Officer
June 26 th, 2020