



Friday Morning Coffee

Nr. 110 — Golden Soil

Gold has been a difficult asset class for us in the past. We find it hard to get comfortable with the idea of investing into a precious metal that does not generate any cash flows. On the contrary it has a cost of carry to store it: it therefore is a negative yielding asset in our world. That view is currently being challenged as the gold price is reaching new highs. This is a direct consequence of the current economic environment and makes us review our case. Once real interest rates, nominal interest rates minus inflation became negative, investors are indeed be well off with gold as a store of value. This is especially true in periods of financial repression and rising inflationary pressure due to massive government and central banks intervention. As interest rates are kept artificially low, interest rates lose their economic signalling power. In such an environment, gold may well make sense and the gold price may well continue to rise. In our equity strategies we are therefore currently looking at some of the gold miners. We have however currently not found any low risk investment case of a company with undervalued earning power.

There are investment alternatives to gold, for example in companies that are benefitting from the current Covid-19 pandemic and its dire economic consequences. One example is the Swedish company Husqvarna, global market leader in the manufacturing of equipment for consumer and commercial lawn and garden care (such as lawn mowers, watering systems and trimmers), chain saws for forestry, residential and agricultural use, and also one of the largest players in stone and concrete cutting tools. The Gardena brand belongs to Husqvarna.

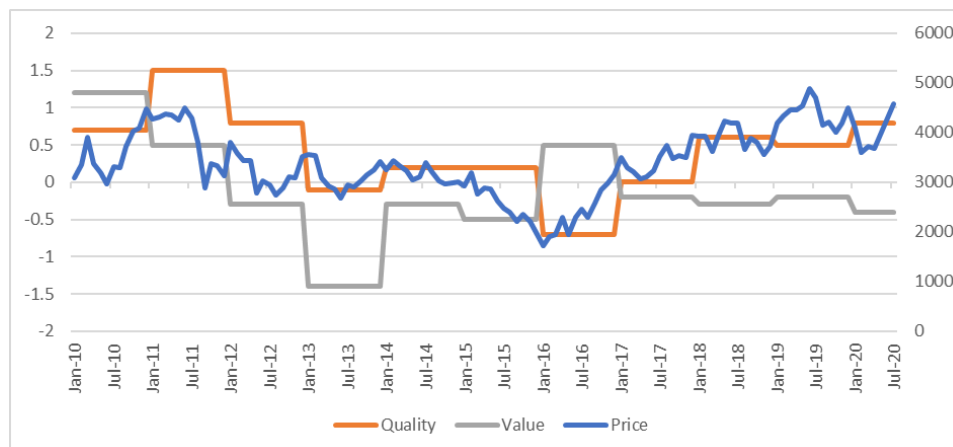
While Q2 results may turn out as a reality check for many companies, Husqvarna came out with a positive surprise this week. "We have delivered a very good quarter, even taking account of the COVID-19 situation, with sales growth when adjusting for Consumer Brands exits, and an increased operating margin. After a challenging start to the quarter, demand accelerated quickly as markets gradually reopened and consumers showed a high interest in lawn and garden care equipment, especially for watering products. The effects of temporary cost avoidance activities and a favourable product mix improved our operating margin." commented Henric Andersson, CEO. The company has increased its sales by 3% in the quarter and is now reaping the benefits from its efficiency measures taken before Covid-19.

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In our proprietary quality-value framework, Husqvarna scores well both on the quality score and the value score.



Source: ECP

The example of Husqvarna shows that there are businesses that appear to come out stronger of Covid-19 crisis. Compared to gold, they produced cash flows and pay dividends, 2.8% indicated gross yield for Husqvarna. While the consumer is forced to spend more time to get his garden in shape, he may turn his soil into gold for Husqvarna. We stay invested.

I wish you a nice weekend,

Léon Kirch, CFA
Partner & Chief Investment Officer
 July 10th, 2020

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