METROPOLE® Gestion

La lettre

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Historic investment opportunities

After several months of lockdown that have plunged the world's economies into an unprecedented crisis, the signs of a recovery in economic activity, albeit from an exceptionally low baseline, are growing in number. Economic activity in China, epicentre of the pandemic, is almost back to pre-crisis levels. Leading indicators around the world are gradually showing signs of picking up. Corporate results for Q2 are expected to be down sharply, as this was the period when most lockdown measures came into force. But companies, too, are seeing recovery on the horizon. The MSCI Europe bounced back by 25% from the lows recorded on 18 March, reducing the losses made since the start of the year to 15%. Beneath the surface, however, market movements have been somewhat more contrasted. The performance gap that has emerged since the start of the year between the MSCI Europe Value and Growth (18 points) is evidence of a dislocation between the investment styles. This gap emerged mainly during the most precipitous phase of the market's slide, but has continued during the ensuing rally. Faced with a situation as terrifying as it is uncertain, investors have once again opted to take refuge in defensive stocks, irrespective of their valuation. Fear is not always the most rational guide, but for those capable of overcoming fear and adopting a long-term approach, there are historic investment opportunities.

History may not repeat itself, but our experience has taught us how best to take advantage of challenging times, with all their share of fears, uncertainties and doubts, that have worked very well indeed for our particular management style. For a Value manager, these historic opportunities generally offer the possibility of significantly widening the scope of our investments. During these periods, we may, of course, invest in the segments traditionally associated with this investment style. These include banks and hard cyclicals, although only after first subjecting balance sheets to rigorous analysis, since the scope and duration of the crisis are, by their very nature, unknown. The current crisis is no different in this respect, and we have been able to add to our positions in banking stocks (**BNP Paribas, Unicredit, Société Générale)** at the bottom of the market, as well as to positions in sectors as cyclical as basic resources (**Rio Tinto, Arcelor**). These sectors will benefit to the full from an inevitable recovery, with the banks in the unusual position of already seeing an increase in lending. In contrast to 2008, the banks are not the weak link nor a source of systemic risk. Holding twice as much capital as they did at the time of the last crisis, the banks have instead become the strong arm wielded by the European Central Bank and governments in support of the economy.

But what makes such periods truly unique is the possibility of investing in companies usually perceived as Growth or Quality stocks. That status can be lost in an instant, if the market suddenly realises they are not immune to the crisis. This is what happened to companies like **Informa** or **Amadeus**: only a few months ago, both were still trading at crazy valuation multiples close to 5x and 7x revenue respectively. Both were hit catastrophically hard by lockdown and saw their share prices plummet. Yet their solid balance sheets and leadership status with significant market shares in their respective sectors will put them in an ideal position come the recovery. Just as Value management is not limited to a factor analysis, so Quality is about more than just the delivery of regular or visible profits growth. As we see it, Quality means companies with a healthy, solid balance sheet, clear strategic positioning and the capacity to make the investments needed for energy and digital transition. In this respect, industry is another sector offering opportunities for investing in quality companies that are undervalued. We have added stocks such as **Sandvik**, **Smiths Group**, **Bureau Veritas**, **Safran**, **Metso**, **Daimler**, **Valeo**, **Autoliv** and **Brembo** to our portfolios.

In response to a situation marked by fears and massive uncertainties, many strategists are advocating investment approaches based on defensive stocks and quality stocks as measured by profits visibility. This inevitably concentrates investment on consumer staples and pharmaceuticals, two sectors with high valuations, which together represent over half of the MSCI Quality and Growth indices. But why accept such a concentration of risk on companies with extreme valuation multiples when the opportunity exists to diversify into quality stocks that are undervalued? We have been extremely active in taking advantage of the dislocation between investment styles that has emerged over recent months, because we know that there are unique opportunities to be had, as was the case in 2002, 2009 and 2011. Only this time there is a very substantial ally on hand to drastically reduce the risk premium that has for many years been associated with European equities. The creation of an EU recovery fund marks a far-reaching change from which the Value management style will be the first to benefit.

Performances*

PERFORMANCES	2020	2019	2018	2017	2016	2015	1 yr.	3 yrs.	5 yrs.	10 yrs.	Since inception	Volat. Vol. bench NAV
EUROPEAN AND EUROZONE EQUITIES												
METROPOLE SELECTION A												
FR0007078811	**-27.19%**	**15.01%**	**-18.25%**	**8.03%**	**-0.53%**	**9.19%**	**-21.20%**	**-31.65%**	**-33.00%**	**19.94%**	**117.94%**	**31.04%**
STOXX Europe Large 200 NR	-14.49%	26.70%	-10.53%	8.92%	1.88%	7.70%	-3.08%	-3.14%	-1.95%	81.55%	131.74%	25.86%
Performance gap	-12.70	-11.69	-7.71	-0.89	-2.42	1.50	-18.13	-28.51	-31.05	-61.62	-13.80	435.87
METROPOLE EURO SRI A												
FR0010632364	**-25.59%**	**14.58%**	**-16.28%**	**4.27%**	**2.93%**	**6.73%**	**-18.73%**	**-29.93%**	**-30.03%**	**20.16%**	**17.17%**	**30.80%**
Euro STOXX Large NR	-16.17%	26.50%	-12.85%	10.81%	3.97%	8.66%	-4.80%	-7.34%	-0.96%	66.50%	37.88%	28.26%
Performance gap	-9.43	-11.93	-3.43	-6.54	-1.04	-1.93	-13.94	-22.59	-29.07	-46.34	-20.72	234.33
METROPOLE AVENIR EUROPE A												
FR0007078829	**-29.87%**	**18.95%**	**-24.11%**	**13.26%**	**3.64%**	**9.49%**	**-21.38%**	**-35.93%**	**-32.67%**	**32.66%**	**131.16%**	**27.47%**
STOXX Europe Small 200 NR	-13.19%	29.09%	-12.88%	18.10%	0.52%	15.68%	0.67%	1.66%	11.01%	125.86%	343.89%	26.46%
Performance gap	-16.67	-10.14	-11.23	-4.84	3.12	-6.20	-22.05	-37.59	-43.69	-93.20	-212.73	462.33
METROPOLE FRONTIERE EUROPE A												
FR0007085808	**-22.01%**	**18.29%**	**-10.14%**	**15.33%**	**0.89%**	**6.19%**	**-12.61%**	**-15.66%**	**-11.35%**	**4.17%**	**75.34%**	**21.23%**
STOXX Europe Large 200 NR	-14.49%	26.70%	-10.53%	8.92%	1.88%	7.70%	-3.08%	-3.14%	-1.95%	81.55%	146.49%	25.86%
Performance gap	-7.52	-8.41	0.39	6.41	-0.99	-1.50	-9.53	-12.52	-9.41	-77.39	-71.15	350.68
BONDS & CONVERTIBLES												
METROPOLE CONVERTIBLES A												
FR0007083332	**-4.07%**	**3.40%**	**-7.98%**	**-0.67%**	**1.98%**	**2.88%**	**-2.56%**	**-10.21%**	**-10.05%**	**19.28%**	**55.58%**	**4.58%**
ECI-EURO	-3.05%	7.57%	-5.18%	6.99%	-0.21%	6.08%	0.15%	0.98%	4.97%	45.80%	86.79%	5.82%
Performance gap	-1.02	-4.17	-2.80	-7.66	2.18	-3.20	-2.71	-11.19	-15.02	-26.52	-31.21	311.16
METROPOLE CORPORATE BONDS A												
FR0010695874	**-1.92%**	**1.06%**	**-2.64%**	**0.26%**	**0.51%**	**0.96%**	**-1.49%**	**-3.05%**	**-2.56%**	**22.43%**	**47.57%**	**1.79%**
FTSE MTS 3-5 Y	-0.06%	1.34%	-0.24%	0.14%	1.46%	1.39%	0.39%	1.04%	3.47%	22.05%	32.37%	2.33%
Performance gap	-1.86	-0.28	-2.40	0.12	-0.95	-0.42	-1.88	-4.09	-6.03	0.38	15.20	295.14

Data as of 29 May 2020

Past performances are not necessarily indicative of future results. The mutual funds may lose value.

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