



Friday Morning Coffee

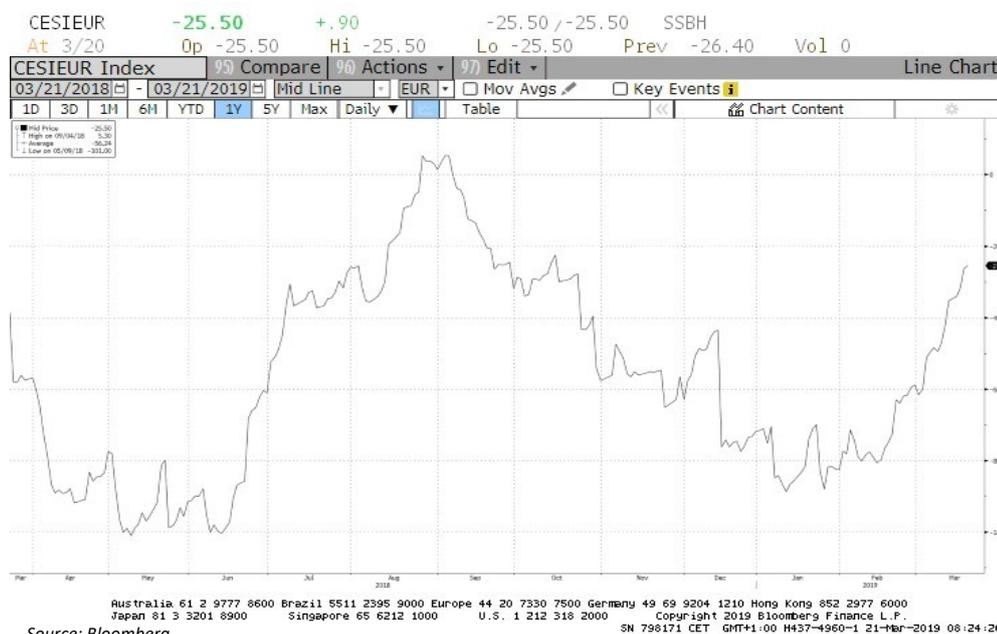
Nr. 49 — Time to stick your head out

Several strategists are currently voicing concerns about the 2019 earnings outlook and stay cautious on equities in general and European equities in particular. The elephant in the room is a potential earnings recession, namely 2 successive quarters of negative y-o-y earnings growth. **The main culprit is of course the slowing economic activity at a time where the manufacturing sector is plagued by an inflation in wage costs and rising raw material costs.** In Europe the ongoing political noise around Brexit, French yellow vests and Italy are hurting investor and business sentiment at a moment we have European elections coming up.

We would argue that in the case of Europe investors are having a too negative view, leaving ample investment opportunities for the long term investor. We are just coming out of the Q4 result season and the results were far from depressing and this not only for the companies we own in the portfolio. According to SG Research, 53% of the companies in the Stoxx 600 published EPS numbers above or in line with consensus. Only 11% published sales numbers below expectations. It is correct that earnings growth estimates have been revised downwards since November last year: however they stand firmly above 5.5% growth for the Stoxx 600 for 2019. To us this does not sound like an earnings recession and certainly does not explain why Europe trades at 12.9 times 2019 earnings and has a 4% dividend yield (source: Bloomberg). It also does not explain why investors continue to flee European equities ex UK and have been seeing 2.3% of their asset base in equity funds flowing out since beginning of the year (source: JPMorgan).

On time for the Spring season, there are some green shoots appearing that should lead to renewed optimism towards European equities and could be an early indicator that the tide is finally turning for Europe. The widely followed Citigroup economic surprise index is showing the Eurozone economies may have bottomed out and more and more economic data is surprising positively.

Citigroup Economic Surprise Index Eurozone



The following note gives the opinion of the Investment team at the time of the publication. Please refer to important notice at the end of the document.



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With sentiment at rock bottom for investors in European equities, fundamentals still OK and valuations low, we continue to believe that we have the right combination at hand to reap good returns in our value strategy investing in strong businesses generating solid cash flows over the business cycle.

I wish you a nice weekend,

Léon Kirch, CFA
Partner & Chief Investment Officer
March 22nd, 2019

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