



## Friday Morning Coffee

### Nr. 97 — Fog of war

Over the past few days, economists and strategists are busy revising downwards their forecasts for economic growth, earnings, and asset prices out of their home offices. These forecasts range wildly from 20%, or 50% or 70% declines on any of these measures. As my colleague Alberto Tocchio, CIO of Colombo Wealth Management in Lugano, pointed out very rightly: "In reality, all of the measures forecasted heavily depend on how long the economy will stay shut down in response to the pandemic (estimates range from weeks to months or even quarters). The time to re-start the economy depends on the dynamic of the virus itself and choices politicians and society make in the process."

We also believe trying to forecast this year's earnings is a futile exercise. Sell-side analysts are axing their earnings estimates for the companies they follow at an unseen speed. The Citigroup Europe (ex UK) Revision Index shown below tracks the number of profit upgrades by analysts minus the number of downgrades: the downgrades outnumbered the upgrades by the biggest margin on record, even higher than during the financial crisis!

#### Citigroup Europe ex-UK Earnings Revision Index (blue) and the Stoxx 600 (white):



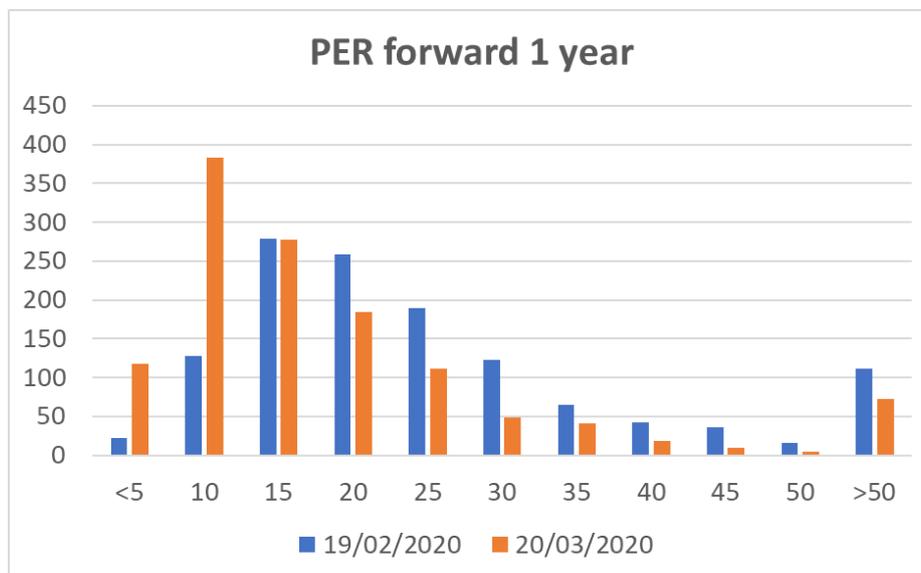
We can only conclude that Mr Market is excessively focussing on 2020 earnings and extrapolates the earnings produced this year to perpetuity. While the current crisis is severe and it is difficult to estimate its lengths and therefore its economic impact, we can be certain of one thing: **it is an external choc that will last months and not years.** For those investors taking a longer-term view on the earning power of the companies they analyse, a sea of opportunities is opening in the current market correction.

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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In order to illustrate this magnitude of the shift, we show the distribution of the price / earnings of the European companies in our screening universe before and after the stock-market turmoil due to Corona in the graph below:



Source : Bloomberg, ECP

The median forward PER of our screening universe of more than 1400 European listed companies (ex-financials) has fallen from 17.3 to 11.1 . Almost 10% of this universe now have a PER below 5 times. 25% of companies in our hunting ground now carry a PER below 10 times. **If we assume that many of these companies have enough cash to survive the current lock-down and will return to their recent earnings, we have at hand a sea of opportunities once the fog of war dissipates.**

I wish you a nice weekend,

**Léon Kirch, CFA**  
*Partner & Chief Investment Officer*  
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