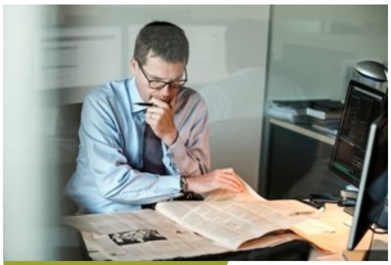


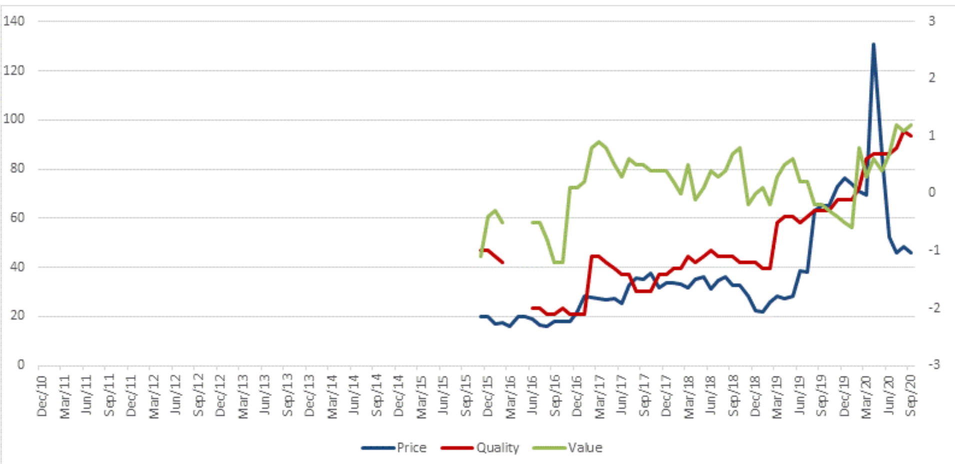
# Friday Morning Coffee

## Nr. 128 — Back at sea

The beginning of this week has been marked by a violent rotation out of Big Tech and so-called Covid-19 winners into the cyclical and value names. This move was triggered by promising trial results from an experimental Covid-19 vaccine developed by BioNTech and Pfizer. European equities have also started to perform noticeably better than their US peers and continue to recover some lost ground in terms of negative performance year-to-date. Strategists from big investment banks were quick to adapt their narrative. JPMorgan strategists Davide Silvestrini and Marko Kolanovic for example are quoted on Bloomberg; "Our equity strategy team believes that we are on the cusp of a sustained rally in value comparable to what we saw in 2016-2017 ... This rotation has room to continue much further given the material underperformance we have witnessed in recent years." The rotation into cheaper value shares can also drive gains in European stocks relative to the U.S. said the strategists.

To us, value underperformance compared to growth can be compared to a rubber band. The more it stretches, the heftier will be the reversal as the situation is more and more unsustainable. While we can not time the return of value, this week's events are evidence of how stretched the rubber band currently is. The trigger of a change in market sentiment could be a retreat of the pandemic due to better treatment options or the rollout of a vaccine. That, in turn, will improve confidence into better economic conditions. Interest rates will start rising and value will perform better. We take note that bond markets start to anticipate exactly this as the US yield curves have started to steepen significantly over the last months.

With the value ship slowly coming back to the sea of investable assets, it is more important than ever that we value managers deploy the capital in the right value investment ideas. As times remain uncertain, we should in our search for undervaluation not compromise on the fundamental quality of the companies we look at. Our fishing pond or sea includes more than 1500 companies in Europe. One name that recently popped up is the German container company Hapag-Lloyd. The company has seen its quality score increase consistently since it went public and currently scores 1 standard deviation better than the average European company both in terms of quality and value score.




*Source: ECP*

Friday Morning Coffee

# Nr. 128 — Back at sea

Hapag-Lloyd is a midcap with 11 bn EUR in yearly sales employing 13000 people worldwide. The company is one of the market leaders in container shipping with a fleet of 239 vessels. Consolidation and capital discipline were dearly necessary for an industry that was loss-making in 2015 and 2016 years. Hapag-Lloyd has fully embraced these changes: it is part of the ongoing industry consolidation, joining a leading global shipping alliance while implementing rigorous capacity adjustments, capex, and cost discipline.

Once we believe that we will ultimately leave the pandemic behind us and that global trade will resume with less trade war rhetoric, which we do, Hapag-Lloyd is very well positioned to continue to generate substantial earning power in the years to come. This is not reflected in the valuation as the company has currently a free cash flow yield of 20% according to Kepler.

**Not only value investing is returning back at sea but there is also a sea of investment opportunities in the value space. Container shipping is only one example.**

I wish you a nice weekend,

**Léon Kirch, CFA**
*Partner & Chief Investment Officer*
November 13th, 2020