



## Friday Morning Coffee

### Nr. 129 — Out skiing

A lot is currently being written about the rotation from momentum/growth stocks into value stocks. To us, the extreme value underperformance compared to growth we have seen over the last years can be compared to a rubber band. The more it stretches, the heavier will be the reversal as the situation is more and more unsustainable. November has shown how stretched the rubber band has become during the Covid-19 crisis. 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 to rise and value will perform better.

We take note that bond markets start to anticipate exactly this as the US yield curves has started to steepen over the last months as can be seen in the graph below :

**Yield difference between US 10 year and 2 year Treasuries ( bps )**



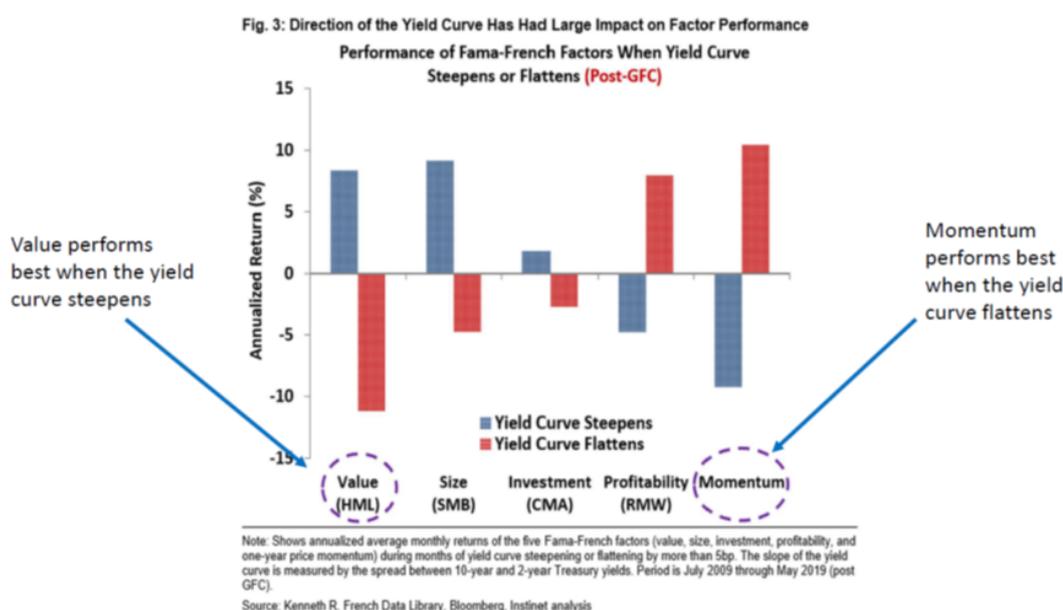
Source: Bloomberg

It currently stands at 66 bps against -4 bps in August last year: we went in fact from a situation last Summer where we had an inverted yield curve to a steepening. While there are some technical factors driving the slope of the yield curve, a steepening yield curve sends a strong signal to investors as the main driver of the shape of the yield curve are future inflation expectations. A steepening yield curve signals rising inflation expectations or reflation.

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This should be good for the value investors we are. There is indeed a direct link between yield curves and value investing is demonstrated in the graph taken from a presentation published by Simon Ree, the author of the bestseller 'The Tao of Trading'. Value performs best in periods of steepening yield curves.



It therefore does not come as a surprise that value investors like steepening yield curves. While confined in their home offices, it is indeed a welcome ( mental ) distraction for them to go skiing on this steeper yield curve.

I wish you a nice weekend,

Léon Kirch, CFA  
Partner & Chief Investment Officer  
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