

## Letter to stakeholders

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Antwerp, 30 June 2020

Dear friends,

We have just experienced a historic first half, starting with the fastest correction ever recorded, followed by the most dramatic upturn in history, all within the space of a few months! The global equity index lost 30% in one month, before going on to regain more than 35% in just over two months. Unfortunately, this 35% is not enough to make up for the 30% drop, and the markets have therefore continued to be negative since 1 January.

It is quite astonishing for the market to have bounced back so much when the economy is performing very poorly and we are expecting corporate profits to fall by around 20 to 40%? How can this disconnect between the economy and the financial markets be explained?

Firstly, there is the impact of central banks and governments, which have said that they will do everything possible to support the economy so that the situation will only be a temporary crisis. They are not afraid to inject vast amounts into the system and have made it clear that they will continue to do so until we have come out of this crisis. Investors feel protected and able to take risks, since the fall will be limited by trillions of purchases, should these prove necessary.

Furthermore, as mentioned previously, we get the impression that, while serious, this crisis is only temporary; a crisis inflicted when everything was going well, and which consists of placing everyone in lockdown; a crisis that will resolve itself as soon as the virus is under control. The market is looking ahead and saying that, depending on the sector, of course, we will come out of this in one or two years rather than in five or six years.

Finally, when we talk about “stock markets that are performing surprisingly well”, we are looking at the stock market indices, underestimating the underlying damage among individual shares. Today, technology companies account for 35% of the global equity index. These companies are generally suffering very little from the current crisis and have continued their meteoric rise. This sector is up by 15% since 1 January.

Other sectors experiencing little or no impact, such as convenience stores and healthcare, are also performing very well. On the other hand, more cyclical sectors such as energy, commodities, banks, etc. have suffered to a far greater extent. Not to mention the events sector, aviation, tourism, casinos, etc., whose shares are much closer to the lows of March than the highs reached the beginning of the year.

The stock markets are, therefore, much more rational than you might conclude solely looking at the stock market indices.

On the other hand, the crisis has accentuated a phenomenon that has been going on since the end of 2016: the impressive outperformance of growth companies. The most prestigious companies are always more expensive than the less attractive ones, which makes perfect sense. But today, the valuation difference is at record highs, like in 2000 or the early 1970s.

Since 2017, the global equity index has performed 30% better than the "value" equity index alone - more than 8% better per year in fact! "Value" shares trade at low multiples. It should be noted that, over more extended periods, these two indices offer very similar performances, in fact with a slight advantage for "value" shares. This is further proof of the importance of having high-quality companies in your portfolio, but also a reminder that discipline in terms of the price paid, is just as important.

Portfolios made up only of the finest companies at the time in 1970 and 2000 lost a great deal because of the huge multiples at which these shares were valued, and these portfolios took a very long time to recover.

Even today, we are convinced that the extremes will correct themselves at some point, and that discipline is the core value more than ever. The discipline is to remain loyal to our strategy, which has proved its worth over the past 20 years: focusing on large market capitalisations, investing the majority in non-cyclical companies with stable cash flows, paying reasonable prices and daring to go slightly against the market, because that is where the best opportunities are often found.

Mercier Vanderlinden has been supporting various Belgian charitable organisations for many years. Each year, our employees have the opportunity to suggest an organisation that is close to their hearts. Ten projects are then democratically selected for financial support. In this way, Mercier Vanderlinden supports the activities of organisations that are active in helping underprivileged people, care for the disabled, scientific research and numerous other fields.

This year, we paid particular attention to research into COVID-19. For example, we recently decided to financially support two studies: KUL (COVID-19 solidarity action) and Stichting St Luc (#Clapandact). Today, more than ever, it is crucial to contribute to the fight against this virus.

At the end of last year, we had planned to celebrate our 20th anniversary on 4 September. Unfortunately, due to the current circumstances, we have been forced to cancel this event. So we will celebrate our 21st anniversary in 2021.

We hope you have a wonderful summer!



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P.S.: Fund factsheets attached to this letter