DIVAS EUROZONE VALUE

Monthly Report January 2021
Marketing material for professional investors

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Market environment

Eurozone equities in general and value in particular enjoyed a brilliant start to 2021. However, uncertainty about the mutated COVID-19 strains in the UK and South Africa and potential delays to vaccine roll-outs in the Eurozone and its potential negative implications for economic growth, had markets tank some 5% at the end of January.

Looking at efficacy test results from different sources on these new strains and the stronger than expected GDP numbers, combined with positive pre-announcements from European industrials, these market worries seem to be unjustified.

Laboratory trial results from Pfizer and BioNTech built the case that their COVID-19 vaccine will protect against the new variant of the coronavirus that emerged in the U.K. Moderna's laboratory tests demonstrated that its vaccine produced antibody protection against the strain first identified in the U.K at levels comparable with older versions of the virus. Neutralising antibodies produced against the South African variant were however much lower. Despite that decreased efficacy, the company announced that its vaccine should protect against either strain. Results published by Texas Medical Branch, showed that antibodies in the blood of people who had been vaccinated were able to neutralize a version of the mutant virus that was created in the lab.

Mid-January the European Commission finally announced tangible targets for its vaccination effort. By March 2021 member states should have vaccinated a minimum of 80% of health and social care professionals and people over 80 years old and by summer 2021 a minimum of 70% of the adult population.

Gross domestic product (GDP) in Spain unexpectedly increased 0.4% in Q4, defying expectations for a 1.4% drop. Germany also recorded growth, while output in France fell less-than-forecast after consumer spending rebounded sharply in December. The International Monetary Fund (IMF) boosted its global growth outlook for 2021 to 5.5% up from 5.2% it projected in October. This would match the GDP growth from 2007, which was the best year in four decades. For 2022 the IMF projects a growth of 4.2%.

Consistent with the V-shaped recovery visible in global manufacturing and construction, industrial companies like Siemens and Volkswagen even positively pre-announced. Volkswagen reported a FY20 EBIT of EUR10 billion, 56% above market expectations of EUR6.4 billion, implying an underlying FCF for 2020 of over EUR10 billion. Not bad for a year that will go down in history as the worst technical recession since the Great Depression.

Forward inflation expectations rose 5 basis points to 1.31% as did the 10-year Bund yield to minus 52 basis points. The Swiss Franc traded flat at 1.081.

The commodity complex continued to rally, driven by the persistent V-shaped recovery in global manufacturing and construction. Brent crude oil jumped 6%. Nickel rose 6%, while iron ore appreciated 1%, as strong demand in China continued to reduce inventories.

The January Markit Eurozone Composite PMI slowed to 47.5 versus 49.1 previously, pulled down by the Markit Eurozone Services PMI falling to 45 on incremental lock-down measures. As expected, the Markit Eurozone Manufacturing PMI held high grounds, coming in at 54.8. The January Markit US Manufacturing PMI rose to 59.2 from 59.1 previously. Conversely, the January Caixin China Manufacturing PMI softened to 51.5, versus 53 previously.

Performance

In January, the MSCI EMU Index declined 1.33%. The fund's euro I-shares depreciated 0.56%, outperforming the MSCI EMU Index (net dividends reinvested) by 77 basis points.

Performance contributors

- TechnipFMC outperformed the market by 18%, as the company announced its intention to complete the spin-off of Technip Energies in Q1 2021.
- Telefonica outperformed the market by 11% on announcing the sale of its tower business to American Towers Co at a very rich multiple thus cashing in EUR7.7 billion equivalent to some 40% of its market cap. This will help Telefonica

to meaningfully reduce its net debt/OIBDA to 2.5x.

- ABN AMRO Bank outperformed the market by 9% on reversing the pronounced weakness seen in the preceding month. There was no other company specific news flow associated with this move.
- Aegon outperformed the market by 7%, as the new CEO's deleveraging and de-risking of the business model seems to capture investor's interest.
- Royal Dutch Shell outperformed the market by 6%, supported by rising oil prices.

Performance detractors

- Société Générale underperformed the market by 8%, as the market feared that incremental lock-down measures would lead to higher loan loss provisions.
- Anheuser-Busch underperformed the market by 7% as the market worried that tighter lock-down measures would depress beer sales.
- AXA underperformed the market by 5%, as the market worried that extended lock-down measures were to trigger additional Event Cancellation claims. The Event Cancellation business is a short tail line and AXA has not written any new business without clear COVID-19 exclusions since March 2020. Furthermore, AXA had already factored in cancellations up till March 2021 in their provisioning published in H12020.
- ArcelorMittal underperformed the market by 3% on profit taking, following the tripling of its share price.

Positioning

In January, the fund switched Randstad into Bayer and Continental into Orange. Furthermore, it reduced its position in ArcelorMittal and Volkswagen pref. to increase its holding in UniCredit.

Outlook

Late January Pfizer and BioNTech said in vitro neutralization studies of sera from individuals vaccinated with their vaccine showed sera neutralised SARS-CoV-2 with key mutations present in the U.K. and South Africa variants. Hospitalisations in the vaccine frontrunners like Israel, the U.K. and the US are falling.

Over the course of the last 11 years, the word "reflation" has basically completely disappeared from our financial dictionary. Some 6-7 weeks ago it suddenly reappeared in the strategy paper of some major investment house and has since experienced its reincarnation in the financial press.

With fiscal stimulus in major industrial nations running at 6-7%+ of GDP, very effective and extended furlough schemes in the Eurozone in place that combined with huge loan guarantee schemes will ensure that consumer confidence stays elevated and banks for the first time in history will not be the ones having to absorb rapidly rising non-performing loans; add a pinch of salt in the form of money supply M3, growing at a mind-boggling 12.3% (this compares to a growth rate of 2-5% over the previous decade) and global manufacturing booming, it would be naïve to believe that inflation would never return. The exceptionally strong results from industrials, supported by the global V-shaped recovery in manufacturing and construction, will bring unions back in droves, asking for higher compensation. As some of you may still remember, higher salaries are the key driver of rising core inflation.

Even though investors are increasingly talking about reflation, no-one is positioned for it. Needless to say, that financials and cyclicals are the key beneficiaries of this.

NAV: EUR 96.38
ISIN I shares: LU1975716835
Valor I shares: 47229643

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