WE WILL WITNESS A RELATIVE VALUATION BETWEEN GROWTH AND VALUE

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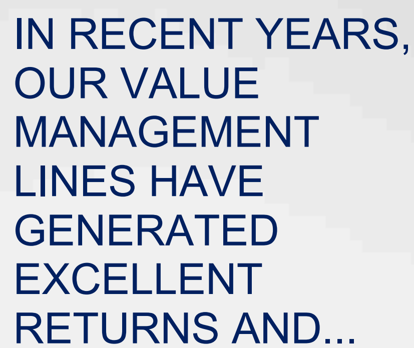
Adopting a value approach for investments when navigating the markets may well prove to be a winning strategy, especially in difficult times like these. We spoke about this to **Luca Riboldi**, Director of Investments at **Banor SIM**, an independent company specialised in financial consulting and capital and asset management.

One of Banor SIM's distinctive traits is value investing. In recent years, value securities have generally underperformed growth securities. Do you think that the current environment could lead to an inversion of that trend?
First of all, a comment on the nature of Banor's value investing. For us, a value management approach means buying shares in companies with little debt, strong entry barriers, excellent management and attractive valuations. These characteristics can be found in companies belonging to what is traditionally considered the value, or rather cyclical, sector, but also within the universe of growth companies. Having said that, it is a fact that, for over a decade, we have been witnessing a bull market in growth shares—outperforming value securities—that, since the beginning of 2020, has gained more speed, particularly in the so-called American growth defensive sector. The driver of this acceleration was the pandemic, which caused an abrupt economic slowdown in a world that was already marked by low growth, and, as a result, the investment flows were increasingly directed towards securities that are less tied to the economic cycle, with some sectors, such as e-commerce or video conferencing, that have experienced a full-blown boom. In our opinion, in this environment, situations of extreme overvaluation were therefore created, and many securities reached unreasonable multiples. In the asset class that we define as value, in the medium to long term time frame, we believe that there are many companies with a large upside potential, especially in the energy, steel and automobile sectors, in some media and in financials. In our opinion, the next five to ten years will represent an excellent opportunity for relative valuation between value and growth.

Raw materials are another asset class coming out of a difficult decade. What is your view?
We have a positive outlook on commodities, particularly oil and agricultural raw materials. Valuations of the latter are at their lowest level in the last 40 years, and even oil has gone down significantly, and when asset prices fall to these levels they become investment opportunities. In our opinion, the catalyst for this opportunity is linked to currency. Historically, there is a very close inverse correlation between the US dollar and raw materials, such that when the former rises the latter falls and vice versa. In order to counter the collapse of the economy caused by COVID-19, the US has deployed fiscal manoeuvres and measures of monetary easing of unprecedented proportions, and it is likely that the dollar will eventually bear the consequences of these measures. A weak dollar is likely to trigger a search for means to defend the value of money and, from this point of view, commodities can become a safe haven asset.



Luca Riboldi
BANOR SIM

You did not mention gold among the commodities.
Gold is the commodity with the best performance in the last ten years, and it is therefore reasonable to expect that it might be the one to perform worst in the next ten years. Gold is in a class of its own and has a different function compared with other raw materials. While industrial metals, oil and agricultural commodities are mainly consumed, gold is a sort of valuable reserve, and therefore its performance is much more closely linked with the fluctuations of money supply and with liquidity in the balance sheets of central banks rather than with economic demand. Consequently, if economic activity should accelerate in the next ten years, the other raw materials will benefit. If, on the other hand, the economy should still be languishing over the next few years and if central banks continue to expand their balance sheets with monetary easing manoeuvres, then gold will continue to appreciate because its value grows substantially with the increase in the amount of money in circulation.

Moving on to the macro context, while the world is struggling to emerge from the COVID emergency, the tension between China and the US is returning inexorably to the fore. What would an escalation of this confrontation involve?
A worsening of the commercial conflict between the United States and China would have a negative impact on the worldwide economy. It should be noted that one of the main drivers of growth in the last thirty years has been the increase in international trade, which accounts for about two thirds of the world's economic growth. However, it remains to be seen what actions, if any, will actually be undertaken by the US President or to what extent it is only election propaganda because, as we have seen in the past, despite all his proclamations, Trump has actually done very little. In any case, we believe that this state of tension between the US and China will continue even if Joe Biden is elected to the White House. In this case, the focus would shift more to ESG issues, such as respect for human rights, and the environment, but it would not disappear.

Speaking of sustainability, what is Banor's approach?
In recent years, we have integrated ESG criteria into our investment process through the application of a process developed in-house for assessing sustainability in the security selection phase. And so, today, in the process of evaluating a company, we assign significant weight to how compliant it is in terms of social, environmental and governance responsibility.

Going back to your investment strategies, can you give us an overview of your value management lines?
Notwithstanding an unfavourable environment, because, as we have seen, the last decade rewarded growth more than value, our value management lines have generated excellent returns and outperformed the benchmark. This demonstrates how rewarding our value investing approach has been, enabling us to seize the opportunities offered by securities with a strong competitive advantage and high growth rates, like Facebook, Google, Amazon, and Apple, when they were being traded at reasonable multiples. Focusing on American giants was one of the pillars of our strategies, and we still keep them in our portfolio, while we are not exposed to companies from sectors that are very popular today—which we mentioned earlier—whose multiples and valuations are too high.

How are you positioned to face the current scenario?
With regard to equities, we have been positioned rather prudently for at least one and a half years. We started to reduce our exposure after the rally in the first half of 2019 and in, the last 12 months, our positioning has been underweight, or at most neutral, with respect to the benchmark. When the pandemic broke out, we reduced our exposure, which we then increased after the sharp drop in March, when multiples became attractive again, and now we are once again underweight. In any case, we do not intend to reduce our exposure to equities excessively because, as long as central banks continue to print money to counter the economic crisis, there is a risk that cash will lose value, and we believe that investing in equities will maintain its appeal. Our guideline is still that of evaluation, whereby we focus on companies that are discounted with respect to their real value and we avoid companies with too much debt because, at this moment, uncertainty regarding the duration and the effects of the COVID pandemic is too high. In broader terms, we believe that the repercussions on company figures will last for 18-24 months and we expect that the negative impact will be substantial for a large number of companies throughout 2020.