

An uncertain environment, source of opportunities

In the second half of 2018, accumulating signs of a global economic slowdown against a background of heightened trade tensions and growing political uncertainties sent equity markets plummeting. The first two months of 2019 then saw markets execute a spectacular rebound, almost wiping out the losses inflicted in the final quarter of 2018. Looked at in detail, not all sectors reversed the heavy losses suffered at the end of the year. This is largely true of the cyclical stocks, still overshadowed by fears of a worsening macroeconomic climate. Their current valuations have priced in much worse than a mere slowdown, however. The cyclical sector aside, opportunities on the European market have multiplied in a wide variety of sectors. As a result, our portfolios are much more diversified than they were a few months ago.

Recent months have seen profit growth forecasts for 2019 downgraded around the world. The expected profit growth for the companies making up the MSCI Europe now stands at +6.1% compared to almost +8% a year ago. Over the same period, companies on the US and World indices have suffered even sharper downgrades, from +10% to around +4.5%. While profit growth is expected to remain positive, it might look fragile in the light of a possible economic slowdown and far too optimistic should a recession take shape. So should we be waiting for massive downgrades before taking a position, especially on cyclical stocks?

In our letter of last month, we pointed out that experience of past cycles teaches us that the moments when stock prices and profit growth forecasts hit their lowest point do not coincide. The market seems to react faster than analysts to the risks of shrinking economic activity. The correction incurred by cyclical stocks in recent months is all the more striking in that the valuations for most of them now seem to have priced in not an economic slowdown, but a recession scenario comparable to that of 2012 and, in some cases, even that of 2009. European companies we meet with are not reporting any leading signs of these, yet their senior executives are rarely ahead of the game in predicting sharp turnarounds in the economic cycle. In addition to valuations already factoring in the worst case scenario, we also need to make sure that the balance sheet of these companies will be solid enough to carry them through the most challenging

situations. Such a selective approach is particularly important when it comes to sectors likely to see their cash positions rapidly eroded in a period of economic crisis, such as the automotive sector, for example.

The same could apply to the European banking sector, which is currently valued at close to record lows, way below the US banking sector. Yet profitability on either side of the Atlantic seems fairly comparable, even though Europe's banks have yet to feel the benefits of the trend towards higher interest rates. The average dividend yield on the European banking sector is around 6%, almost double that of its US counterpart. The valuation of European banks reflects a scenario of brutal recession. Yet most of the banks hold capital well in excess of the minimum regulatory capital adequacy requirement, even if the costs of risk were to rise to unprecedentedly high levels.

The oil and gas sector offers similar attractions, with high dividend yields sustained by generous cash flows and healthy balance sheets. While not as heavily discounted as the banks, most of the European majors are valued at levels that fail to reflect the recovery in their profitability, regardless of movements in oil prices.

Other European stocks in a wide variety of business sectors are also trading at heavy discounts. A common factor shared by many of them is their exposure to disruptive technology. Their valuation often reflects an inability to adapt to the new environment. In contrast, the market overvalues companies that rely on these new technologies to compete with traditional players. While some of these have also experienced sharp falls over the last quarter, the market's polarization in terms of value is still significant and bears witness to a totally unbalanced perception of the risk involved.

The uncertain environment of these last few months has opened up new investment opportunities on the European market. The discounts to be found in many sectors underscore the attractiveness of a market that has suffered unduly in recent months from unbridled pessimism. We have taken advantage of this period to invest in discounted companies with valuations pricing in worst-case scenarios, whilst waiting for the uncertainties over the economic and political environment to settle.

Performances*

| PERFORMANCES | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 1 yr. | 3 yrs. | 5 yrs. | 10 yrs. | Since inception | Volat. Vol. bench NAV |
|---------------------------------------|--------|---------|--------|--------|--------|--------|---------|--------|--------|---------|-----------------|-----------------------|
| EUROPEAN AND EUROZONE EQUITIES | | | | | | | | | | | | |
| METROPOLE SELECTION A | | | | | | | | | | | | |
| FR0007078811 | 9.32% | -18.25% | 8.03% | -0.53% | 9.19% | -0.02% | -10.95% | 7.00% | -0.83% | 141.07% | 184.50% | 13.50% |
| STOXX Europe Large 200 NR | 10.48% | -10.53% | 8.92% | 1.88% | 7.70% | 7.09% | 1.48% | 19.77% | 23.33% | 168.97% | 136.30% | 12.45% |
| Performance gap | -1.16 | -7.71 | -0.89 | -2.42 | 1.50 | -7.11 | -12.43 | -12.77 | -24.16 | -27.91 | 48.21 | 569.01 |
| METROPOLE EURO SRI A | | | | | | | | | | | | |
| FR0010632364 | 8.48% | -16.28% | 4.27% | 2.93% | 6.73% | 1.24% | -9.44% | 8.75% | -0.17% | 128.72% | 49.08% | 13.58% |
| Euro STOXX Large NR | 10.60% | -12.85% | 10.81% | 3.97% | 8.66% | 4.30% | -2.63% | 22.20% | 23.68% | 145.00% | 43.79% | 13.39% |
| Performance gap | -2.12 | -3.43 | -6.54 | -1.04 | -1.93 | -3.06 | -6.80 | -13.45 | -23.85 | -16.28 | 5.29 | 298.16 |
| METROPOLE AVENIR EUROPE A | | | | | | | | | | | | |
| FR0007078829 | 10.41% | -24.11% | 13.26% | 3.64% | 9.49% | -1.70% | -14.34% | 7.66% | -1.04% | 184.45% | 205.95% | 14.06% |
| STOXX Europe Small 200 NR | 12.00% | -12.88% | 18.10% | 0.52% | 15.68% | 4.93% | -1.43% | 26.34% | 31.64% | 287.83% | 343.68% | 13.14% |
| Performance gap | -1.59 | -11.23 | -4.84 | 3.12 | -6.20 | -6.64 | -12.90 | -18.68 | -32.68 | -103.38 | -137.73 | 611.90 |
| METROPOLE FRONTIERE EUROPE A | | | | | | | | | | | | |
| FR0007085808 | 4.75% | -10.14% | 15.33% | 0.89% | 6.19% | -1.86% | -6.73% | 20.29% | 8.27% | 97.04% | 99.08% | 9.69% |
| STOXX Europe Large 200 NR | 10.48% | -10.53% | 8.92% | 1.88% | 7.70% | 7.09% | 1.48% | 19.77% | 23.33% | 168.97% | 151.34% | 12.45% |
| Performance gap | -5.73 | 0.39 | 6.41 | -0.99 | -1.50 | -8.95 | -8.21 | 0.52 | -15.06 | -71.93 | -52.26 | 398.16 |
| BONDS & CONVERTIBLES | | | | | | | | | | | | |
| METROPOLE CONVERTIBLES A | | | | | | | | | | | | |
| FR0007083332 | 1.85% | -7.98% | -0.67% | 1.98% | 2.88% | 0.71% | -5.81% | -2.59% | -3.87% | 48.16% | 59.75% | 3.65% |
| ECl-EURO | 2.63% | -5.18% | 6.99% | -0.21% | 6.08% | 3.06% | -2.14% | 9.74% | 11.54% | 66.04% | 83.82% | 4.33% |
| Performance gap | -0.78 | -2.80 | -7.66 | 2.18 | -3.20 | -2.34 | -3.67 | -12.33 | -15.41 | -17.88 | -24.07 | 319.50 |
| METROPOLE CORPORATE BONDS A | | | | | | | | | | | | |
| FR0010695874 | 0.35% | -2.64% | 0.26% | 0.51% | 0.96% | 3.78% | -2.09% | -0.98% | 1.67% | 45.57% | 49.40% | 2.92% |
| FTSE MTS 3-5 Y | 0.18% | -0.24% | 0.14% | 1.46% | 1.39% | 5.93% | 0.17% | 0.73% | 7.20% | 28.56% | 30.92% | 2.28% |
| Performance gap | 0.17 | -2.40 | 0.12 | -0.95 | -0.42 | -2.15 | -2.26 | -1.70 | -5.53 | 17.01 | 18.48 | 298.80 |

Past performances are not necessarily indicative of future results. The mutual funds may lose value.

*Data as of 28 February 2019

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