OSIRIS
Asset Management AG

Current Market Environment

From a strategic and portfolio-construction point of view our fund looks well positioned in this uncertain market environment. We have previously commented that the fund does not have any exposure to deep cyclical stocks like steel, oil, and transport which are likely to become increasingly susceptible to changes in investor-sentiment as the coronavirus should at least temporarily dampen macro-economic expectations. We also avoid exposure to stocks where the main catalyst is underpinned by excessive Chinese growth expectations and / or companies with no pricing power, in particular, the retail sector. Looking ahead, the US continues to show the most sustainable growth momentum of the world's leading economies. Moreover, given the forthcoming presidential election in November, we expect the White House to keep stimulating the domestic US economic activity – or at least talk up the momentum while the Fed will continue to bolster the financial markets with liquidity. This alone should continue to support the USD - notwithstanding the fact that 2/3 of Europe's government bonds are currently trading at negative yields. In our spreadsheets, our current calculations show that the USD is on average some 3% stronger against the EUR in 1H20 Y/Y and around 2% stronger in 2020 over 2019 [It is a hypothesis]. We acknowledge that analysts frequently use companies' year-end results to re-set their expectations and we tend to do the same at Osiris. Based on the FY19 results which have been announced so far and our current forecasts, the fund is forecasted to generate around 3.5% LFL sales growth in 2020 and circa 12% EPS growth. These projections compare very favorably to the corresponding consensus projections for Europe of 2% and 7% respectively, according to Bloomberg.

Conclusion

As value investors, prudence is what guides us in selecting new investments and appraising the intrinsic value of our stocks. It's evident that slowing GDP growth due to the coronavirus still poses risks to the current bull market. An unexpected outcome with respect to any of these macro issues could dampen investor enthusiasm and, in turn, negatively impact risk asset valuations, shifting the teeter-totter back in value investing's favor, as value has tended to hold up better in challenging market environments. We at Osiris have no unique ability to project whether these risks or others will come to fruition in 2020, and we remain less interested in businesses for whom global GDP growth is the primary catalyst. We continue to focus on finding high-quality franchises with secular and internal drivers of multi-year profit cycles and think these investments should continue to be preferred within a slow-growth global economy. In the interim, we suspect that periodic market volatility is likely to remain with us, which should continue to bode well for bargain hunting.