# European Growth vs. Value Part 2

The piece we published last week on European Value vs. Growth (European Value against Growth: time to concentrate on the EPS) provoked a lot of feedback from investors trying to position themselves in Europe in the year ahead - a task that is not made easy by the prospects of rising interest rates and events in Ukraine. In the piece we pointed to the superior profitability of our portfolio and its attractive valuation when compared to both the Value and Growth indices.

Many of you had no difficulty with this but continued to be challenged by macro considerations. The feedback has fallen broadly into two camps. Investors in the first camp think that the ascendancy of the value trade has further to go as interest rates rise. Those in the second believe that the reflationary trade which has been the main driver of index returns in Europe last year will flag and consequently Europe will lose its attraction generally. Investors in both camps appeared to be united in the idea that macro considerations would continue to undermine valuations.

To all those in the first camp, the prospect of interest rate rises continuing to ravage growth stock valuations seems to have done its worst. It is always as well to remember that the best growth companies are almost always backed by structural long-term trends, and value stocks are not. They are just being driven by short term cyclical triggers, notably short-term interest rate speculation.

Current inflation, which is behind the speculation about rising rates, is not due to overheating economies but rather the result of short-term supply side shortages. Higher interest rates will have no impact whatsoever on these shortages. They will just pressure economic growth. That is why we believe that 4 interest rate rises in the US are unlikely and market will be pleasantly surprised.

Higher interest rates, commodity prices and energy prices will be a break on economic growth, so it is only the companies with long term structural growth drivers that should be trading at a premium. The short- term bounce in commodity prices, once reflected in stock prices will flatten out.

As for those in the second camp, it is certainly true that the European index has been propelled by cheap banks, materials and energy. Given what we see from consensus forecasts, the increase in profits amongst value stocks which was spectacular in 2021, largely because the base effect of a Covid challenged 2020, will remain healthy this year before falling off a cliff in 2023. It is therefore reasonable to assume if these sectors take a breather, then the 25% increase that we saw in the index last year may not be repeated. But we had no exposure to any of these stocks last year and still beat the index by a comfortable 3%.

We do not want to get drawn into the old Value/Growth debate here. You are all well versed in the arguments and know where we stand. What we would like to reiterate is that we only invest in stocks that have growing profitability and are backed by structural long-term trends. Irrespective of the bigger picture our companies are cheap, they are gaining market share and delivering on profit. Our high active share is designed to deliver returns irrespective of the travails faced by the lumbering broader index.

There are challenges no doubt in the year ahead, but we are confident that the companies in our portfolio, several of which we expect to be upgraded on the back of recent results, will perform well from here. Their stock prices will follow accordingly.

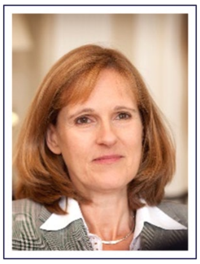
## Performance

| Net Performance (EUR) as at 31 January 2022 | 2021 | 3 Years | 5 Years | 10 Years |
|---|---|---|---|---|
| Aubrey European Conviction Equity Strategy | 27.5% | 61.1% | 92.8% | 243.8% |
| MSCI AC Europe Net TR Index (€) | 24.8% | 37.7% | 44.9% | 126.7% |

The above figures have been calculated using a combination of Aubrey's European Strategy (10 years to 31 March 2019) and the Aubrey European Conviction Fund (AECF Share Class EUR) from 31 March 2019. The resultant combined performance is presented net of management fees and transaction costs. The Aubrey European Strategy performance has been used to simulate the past performance of the Aubrey European Conviction fund because they have both followed the same strategy. However past and simulated performance is not a reliable indicator of future results, you may not get back what you originally invested and investment returns may increase or decrease as a result of currency fluctuations.

## Biography

**Sharon Bentley-Hamlyn** | Investment Manager



Sharon is a founding partner of Aubrey Capital Management having joined the firm in 2006. She has been responsible for Aubrey's European strategy since inception in 2008 and is head of research and lead manager on two Luxembourg quoted European SICAVs, and a UK quoted Europe ex-UK OIEC. She also heads up Aubrey's Sustainability Committee, which ensures the consistency of ESG scoring across investee companies, monitors UN supported PRI reporting, as well as Aubrey's own internal ESG performance.

Formerly she was with Walter Scott & Partners from 1992 to 2006, from 2001 as a main Board Director. There she had a global remit following extensive research experience into the major markets of the world: the UK and Europe (including emerging Europe), the USA and Far East. For almost a decade she held primary responsibility for the firm's European stock selection and for the firm's regional European assignments, either fully discretionary or with client-specific parameters. Sharon helped develop the firm's institutional fund management business and managed several publicly quoted SICAVs.

## Further Reading

If you would like to read further articles, please select the following link - Aubrey Research

## European Conviction Fund Factsheet

If you would like to receive our monthly European Manager Report by email, you can sign up here - Sign up to Aubrey European Monthly Report

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