ROBECO Global Consumer Trends Special Update

Wednesday, March 18th 2020

For Institutional Use Only

Call Transcript:

Ed Verstappen:

Good morning, my agenda for today is on slide number 2, it's a very brief agenda. The agenda is what are we seeing in the current market, I think we are all very aware that positioning of the fund what works well and what doesn't work well. We have specific examples of that and then our view on the outlook. How you can use this opportunity, if you want to see this as an opportunity. We've also added the regular product presentation because you might refer to one of the slides or you might refer yourself to one if we mentioned the topic earlier. It's likely that there is more background later part of the presentation. On the next slide, what do we see in current markets? Well to be honest, I've been in investment industry since 1995 and I've not seen what we are seeing today in terms of the speed and the velocity of the markets, how they go down. You also see that the bottom right where we have plotted different historical drawdowns, what you see on the most left one is what we are seeing currently. In a very short period, we have gone down with a 25% and even more. I was just reading that on average, in the last seven days, on the S&P 500 an average move of 7.7% and there was not one day with less than 4% movement so very volatile times. Clearly the central banks are trying to help with what they can but it's also argued that would not be enough, we really need fiscal stimulus as well and that is what we are currently seeing with several governments announcing that. Obviously consumer strategy that we are discussing today is Global Equity, we focus on consumer standing well that is a little helpful because as you see the stock price going down are in the energy sector and the banking sector so at least the consumer sector is a little bit more protected on the downside. We are less cyclical and that helps clients a lot. The difference between cyclical value stocks and structural gross stocks is that we tend to favor roughly 7% on a global level currently so on that side, it's a very negative situation that we're in but at least we're on the better side. What we hope for, and that's probably what everyone is focusing on, is when the coronavirus cases slow down. We've seen already stimulus in interest rates, we see now fiscal stimulus so the third thing we would need is a slow down on the reported corona cases and that is probably a moment when the markets can recover in our view. Move to the next slide and let me tell you what's happening with Global Consumer Trends so far, and then I'll hand it over to Richard (who will discuss how the positioning today in terms of attractive segments and also some worrisome segments. We are strongly outperforming, the question is always can you be happy with that? Probably not. Against the background of the absolute negative returns but at least that is a slight relief. Growth is clearly outperforming cyclical value as I mentioned already. When the coronavirus came up, people feared mostly so far the impact on GDP, the topic of the recession and then you see the drawdowns in cyclical sectors like I mentioned banks and the oil sector. In our portfolio, we also have some topics that are very usual suspects of being negatively impacted by this topic things like travel (we cannot travel), retail, luxury. Those are clear suspects, Richard will give you much more detail on it. We also have things in our portfolio that are more or less benefitting, or at least relitavely resilient in the current turmoil. Things like food delivery or the more defensive staples, we are very happy today that we have a diversified approach in our global consumer strategy that helps a lot. There are also some parts here that are relatively more protected. Something to mention at the end of this slide is something we have always avoided is banks and energy, that is clear. Airlines and car industry are clearly related to consumer segments but those are segments that we actually never invested in because we don't see enough return on their capital so structurally we are always low, actually 0, that helps a lot today because those are segments that are clearly impacted a lot. We do have retail, although quite limited, the retail we have is linked to our strong brands but even companies like Nike or Adidas, are closing down temporarily. Hopefully, quickly, they will open again but at the moment closing down some of their shops just like Apple is. On a stocks specific level, we have avoided some of the worst losers, I would say. Not because of the virus actually, these companies were sold before we all knew about this in the second half of 2019. Carnival Cruise ships use to be in our portfolio but was sold earlier, Sands China, same situation and also Booking, an online travel booking agency that we were invested in for many, many years but sold also in the second half of 2019. I know that we can say now that we are very happy to not own these stocks.

Richard:

Good morning, we were seeing increase worry and uncertainty in the market. Initially of course it all started in China and I think the impact we saw there is broadening now also across the globe. So the initial fear and most of our worries were around travel related companies so we saw luxury being impacted, initially because of the slow down or the stop in sales in China we're seeing now increasing numbers from that region, which is still down 50% more less than February and March. Of course now stores are being open there again but now we see the same happening here in the western part of the world. So everything related with travel expanses like luxury, cosmetics, is of course having an impact. I think two things which have had negative impact in the western world is retail companies, as mentioned and we see announcements of retail stores closing their stores for weeks and we'll see how long that will continue. Whether its Apple, Nike, Adidas, H&M closing all their stores for a couple of weeks. So that's another impact and that's mainly driven by the companies themselves or sometimes forced by the government. Another one is all kind of events where a lot of people are close to each other whether its concerts, trade shows, which are all cancelled at this point in time. Those are, I would say, obvious over hurt part of the consumer economy. However, if we look at other parts where we are adding a lot of relative performance right now is Staples. I think Staples really proves their defensiveness at this point in time with Nielsen data from many of the US companies yesterday and they were extremely strong especially for some, let's say, basic necessities. Of course driven by the hoarding behavior we are seeing, companies like P&G is benefitting from that. We also invest in Costco, which of course we see is positive. The stock is even up for the year and for the month, one of the few in the S&P right now. Also other segments benefitting from individuals staying at home is home entertainment. So you see gaming companies are relatively doing well. Also companies like Netflix and Spotify are less hurt than the rest of the market because of consumption and subscriber road going up for these companies during this period of time. Another part is our Emerging Markets exposure, so as I've said China was hit first but it's coming out first as well because they've also handled the situation quite severe but also quite effective. We saw tonight an announcement that from Starbucks that over 90% of the stores are re-open again in China. Apple, as well. Apple has closed all stores globally expect for China, where they have open again. Also, India has also been a relatively good performer so far this month and also in the last two months actually because there has been very limited coronavirus impact there so far. Of course people are uncertain, we had a call yesterday with one of holdings in India, the CEO said there is a lot of nervousness, cases are very limited right now but we still see the same type of behavior there but at least the actual impact so far has been limited. Most of the infrastructure is still open in India. Another part where we are seeing a more positive feedback on is the food delivery apps, so as you are aware we own quite a lot of food delivery companies. We had a call with one of the CEOs of the food delivery companies last week and they said it was more or less business as usual and even see more demand. If I look at our own home market, where home delivery is quite advanced as well here in Holland, we see quite a lot of restaurants signing up for food delivery as all the restaurants have been forced to close since last Sunday. So we see a huge demand for food delivery business which is helping us as well. And in general, as we have had more quality buys, we've had a lot of companies with more balanced sheets and of course in this environment where interest rates are moving all over the place, where a lot of pressure is on liquidity, getting access to credit, having companies with strong balance sheets really helps. Another area which is strong, as a lot of you who are working from home can tell, is the rise of e-commerce. We're probably going to use E-commerce even more. I put a point here on the slide that shows that Amazon is hiring a lot of extra workers these days. Also will give priority to a limited numbers of categories because with all the demand, it can't be filled the demand they are having right now. Also, this will probably lead to a faster adoption of digital payments. A lot of stores are not accepting cash anymore because of the risk of the virus. Also online is taking a lot of share in the retail domain which will ensure this digital payment will accelerate. So these are all the areas which are helping us right now and we think that some of these will not only be temporary but let's say increase the gradual shift like the shift of digital payment, like the rise on e-commerce, also in the median or longer term because people are getting us to ordering groceries online or to pay with card so they'll pay with mobile phone instead of cash. We also see this is having a longer term impact on our trends exposure.

These topics that we are focusing on are not only on the portfolio because of the virus but actually they were on the portfolio before based on long-term prospects but it does help currently in our portfolio and performance. On slide 6, we'll try to give you our view on what to do next. Obviously this is very dependent on your own individual situations but we will at least give you our view. Our view is that basically you have to be still careful, there's quite a lot of uncertainties. But we're also quite optimistic that there will be a recovery. Nobody knows when, as it says on this page, it may be hard to imagine today but even the coronavirus topic will fade off at some point in time and one indicators of that could be the slow down in the new cases. If that happens, well then the market has responded very negatively, and I can imagine in many client portfolios but again this is up to yourselves to decide that the equity rates have tremendously been under pressure due to the velocity of the markets going down in the last 3-4 weeks. Which, in theory, will mean that you will be able to buy into equities, we would say that is a good move if you focus on quality companies but we also say please do it gradually. Use, not only the diversification in a portfolio, but also the diversification overtime. We've seen many crisis before well 2002, 2003, the great financial crises second half of 2011. Every crisis is completely but my personal view is always that while you're in the middle of it, it feels really terrible one year later you can look at it with more rationality, with hindsight that is what definitely happens in psychology with investors. The only thing we can basically say is try to stay as rational as we can. Which in our view would mean buying slowing and gradually, into equities. Then the question is of course why would you be buying Global Consumer Trends if you are buying into equities. Well it is a quality portfolio, now on slide number 9, its well diversified. We think, that is our view, and that is debatable but if the markets recover people will first start to buy companies they know and trust, like with strong balance sheets and strong brand names and we think that will see the biggest recovery over a horizon of several months. That could work well for us, the biggest risk for us in relative terms is that we will maybe underperform in certain climate is the fact that people start to buy the stocks that have been punished the most currently especially if people have a view that a recession might be avoided because in that case banks and energy stocks will recover. Is that negative? Depends on how you look at it. Not in our view because it would be mean that we would give up some of our relative out performance that we have today but we would still have better absolute performances and we would probably also expect that a little bit on a longer term horizon in terms of month quality bias will still pay off strongly. Because sentiment is clearly hurt currently in the market and it will take a long time before confidence returns, as we all know. So we have no changed much in the portfolio, we are using some of the info that we still have month-to-date. By selectively buying some stocks in a gradual pace, just like we advise our clients to do.