

This Time is Not Different

Stockholm (HedgeNordic) – Down 8.6 percent year-to-date through the end of August, **Catella Nordic Long Short Equity**'s performance "has been disappointing in 2019," acknowledges portfolio manager Thomas Elofsson (*pictured*). The main reason behind the underperformance is that "many of the companies we judged to be "cheap" have become even cheaper, and many of the ones we judged to be "expensive" have become even more expensive."

Catella Nordic Long Short Equity is a fundamentals-based long/short equity fund employing a value-oriented approach to investing. In short, the portfolio management team relies on fundamental analysis to select stocks believed to have deviated from their fundamental fair value, with the fund buying shares considered to be cheap and short selling shares found to be overpriced. "For most of 2019, we have had a net exposure close to zero," says Thomas Elofsson, Head of Portfolio Management, fund manager and acting CEO at Catella Fonder.

The valuation gap between so-called value and growth stocks has been increasing, and value stocks compared to growth stocks "are now trading more cheaply than during the dotcom bubble of 2000" if considering standard valuation measures such as price-to-book value, price-to-earnings and price-to-sales. On the question of "why are valuations so extreme?", Elofsson reckons that the answer lies in ultra-low interest rates. "My guess is that this is the most important reason why we are experiencing huge valuation differences between different companies." Low interest rates may justify higher valuations, argues Elofsson, "but this should affect all assets."

Companies, governments and households are embracing the opportunity to borrow cheaply, and debt levels are currently the highest they have ever been. "One consequence of this is that growth should be structurally lower going forward since we have used borrowing to consume and invest today what we would have otherwise done in the future," explains Elofsson. For the above-mentioned valuation gap to continue to rise, "more of the same is likely needed, which means even lower interest rates," he emphasizes.

"In summary, we do not think it is different this time," argues Elofsson, adding that "our conviction is that the historical norms that characterise the market will again apply and that relationships between cheap and expensive companies will then shrink." For that reason, Catella Nordic Long Short Equity's portfolio remains long in cheap companies and short in expensive ones.

Specifically, the Catella fund had long positions in finance and commodity-oriented companies at the end of August, whereas the sectors with the largest short exposures were industrials and consumer durables. "In these sectors, we find companies that, although very likely to be sensitive to an economic downturn, have not experienced the price trend that has impacted the more cyclical commodity companies," says Elofsson.