Too Early to Throw in the Towel

Stockholm (HedgeNordic) – After years of lagging performance, lowly-rated value stocks are staging a comeback to ease some of the pain suffered by many practitioners of the traditional value investing approach. After finishing slightly in negative territory for both 2019 and 2020, systematic value-focused fund **HCP Quant** advanced about 34 percent in the past four months after gaining 15 percent in the first two months of this year.

"HCP Quant has been doing very well since the working vaccination for COVID-19 by Pfizer came out," says Pasi Havia *(pictured)*, a portfolio manager who runs a concentrated portfolio of small- and mid-cap deep-value stocks for HCP Quant. "What happened in January and February is a continuation of what began in November of 2020," he adds. "Year 2021 has seen stellar performance so far." Despite the recent rise in valuations of lowly-rated companies, HCP Quant's portfolio still sits at a price-to-earnings ratio below 10, a price-to-sales under 0.5, an enterprise value to EBITDA around 5, and a current dividend yield of 5 percent.

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HCP Quant was launched in mid-2014, at a rather difficult time for most value

investors. With the recent advance, HCP Quant is edging closer to bringing its inception-to-date return back into positive territory. "HCP Quant has had a long underperformance because the whole value factor has been underperforming historically for a long time," Havia tells HedgeNordic. Whereas some value-oriented fund managers may have thrown in the towel, "we have been loyal to the strategy all the time, no matter how hard it's been at times."

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"Now we've seen a rotation in the markets," says Havia. "If it continues, HCP Quant will have a tailwind behind it," he adds. "Value has a long catch up to do with its historical performance, and if this is what's happening, you do not want to miss it out." With HCP Quant being a quant-heavy systematic fund focused on small- and mid-cap deep-value stocks, the fund attempts to harvest both the so-called "size premium" and the "value premium." According to Havia, "all the sentiment changes towards the value factor affect this portfolio greatly."

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"Since March 2020, so-called stay-at-home equities have been performing very well," Havia begins to explain the rotation from highly-valued growth names to lowly-rated value stocks. "Societies locked down, work-life, leisure, shopping and pretty much everything went online. That benefited a lot of companies providing services in these sectors," he continues. "Many value sector companies were left behind: airline companies, hotels, manufacturing companies, etc."

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"Now the market is beginning to look at what's going to happen after the crisis is over," says Havia. "At the same time, we've also seen the rise of interest rates. Value stocks usually do better in times where interest rates are higher," the fund

manager adds. “Going forward, I see a battleground where central banks try to balance between reviving the economy and inflation. If inflation and interest rates begin climbing, that will definitely be good for value stocks and HCP Quant,” argues Havia. “If not, we will see new highs of Nasdaq pushing technology stocks higher.”