QV UPDATE
Weekly Commentary | November 24, 2017
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Around the World in 573 Words

Ear to the Ground

With businesses in the global equity strategy having reported third quarter (Q3) results, we'd like to share a few corporate updates which offer insight into the economy's health.

Industrial activity continues to improve:

In Q3, fork-lift manufacturer Hyster-Yale saw unit shipments rise 8.4% – the biggest increase since 2013. Management noted that they are seeing stronger demand from ports and improving demand from Latin American as well as global miners. In Europe, peers continue to see high single digit unit growth as well.

Norsk Hydro, a vertically integrated Norwegian aluminum producer, saw global demand for the industrial metal rise by 5.6% in Q3, with broad based growth across all major geographies. With no major capacity additions expected, the global supply/demand balance looks more stable over the next few years. This is supportive of future profitability for aluminum producers like Norsk, an outlook which we believe extends to other global integrated base metal producers.

With continuing improvements in demand for economically sensitive businesses like Hyster and Norsk Hydro, bottom up data seems to confirm a growing synchronization in global growth.

The consumer is doing well and spending trends are encouraging:

In Q3, American Express saw billed business rise 8% while robust demand for credit drove 14% growth in worldwide loans. The company's credit quality remains strong, loan losses are rising but reasonable and US consumer debt servicing costs remain very low.

Last week, Walmart reported the strongest same store sales data in eight years. Despite being a validation of the company's recent initiatives to drive traffic growth, we think this is an indicator of an improving low/middle income consumer at a time when grocery inflation is beginning to rise in the US.

The wealthy consumer also continues to prosper. At Swatch Group, we are seeing a rebound in luxury purchases as Swiss watch exports rose 9.3% in October – the highest growth in over four years.

Such bottom up data is encouraging, particularly in geographies outside North America which have been pressured in recent years. Equity prices discount improving fundamentals quickly however. We would caution on necessarily drawing a linear relationship between improving global growth and higher future stock markets.

A Global Equity Riddle

What do a German utility, US autoparts retailer, Dutch energy company and British grocer have in common?

Answer: Quite a bit. Their share prices have all experienced significant pressure at some point in recent years despite a quickly rising global stock market; they all have strong underlying businesses and ample free cash flow; and they have all been purchased in the global equity strategy in the last 6 months at what we believe are attractive valuations. In order, these businesses are E.ON – the largest utility network in Germany, Autozone – the largest auto-parts retailer in the US, Royal Dutch Shell – a major integrated energy company, and Tesco – the largest grocer in the United Kingdom.

Holding	Decline from 10 year high share price at day of initial purchase	Current Price to Earnings
Tesco PLC	-62%	16.2x
Autozone, Inc	-23%	13.4x
Royal Dutch Shell PLC	-24%	15.3x
E.ON SE	-83%	15.2x
S&P 500	**New Highs**	**19.4x**

Source: Capital IQ

Why does this matter?

After almost nine years of strong returns, major developed stock market valuations have risen beyond long-term averages. Despite this, security correlations have fallen as certain areas of the market have come under pressure. This creates opportunity and has allowed us to continue to find companies in different geographies and sectors which meet our criteria for investment. Taken together, such holdings offer the global equity strategy a differentiated risk/return profile at a time when market index returns expectations are reduced and the potential for future volatility is rising.