LHV Portfolio Management

Monthly Investment Report

April 2022

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We believe that we will see a large-scale recovery package in China in the second half of the year to boost economic activity, and the weakness in the commodity sector should remain short-lived.

Continued nervousness in the markets

In April, the nervousness in the markets continued. The world stock market index decreased by 3.6%, measured in euros, bringing the 2022 total to –6%. The Nasdaq technology sector index, which has gained popularity among investors in recent years, fell by 8.9%, measured in euros. Rising inflation has also put pressure on long-term bonds. The eurozone bond index ended the month down by 3.4%, having already lost 8.6% of its value at the beginning of the year.

Over the year, our portfolios have significantly outperformed the markets and have been profitable.

Since the second half of April, our positions in the commodity sector have been under pressure due to fears of China's zero-tolerance policy towards COVID-19. China continues to fight COVID-19 with extreme zero-tolerance methods and, if necessary, even locking up cities of tens of millions, shutting down factories, ports and other parts of the supply chain. This further hampers the movement of goods on world markets.

Market index movements	1 month	2022
Eurozone bond index	–2.2%	–3.3%
World stock markets	–2.8%	–6.2%
North America	–3.0%	–7.0%
Europe	–3.0%	–6.1%
Emerging markets	–3.1%	–3.6%

** Total return of MSCI indices, in euros*

As a result, investors fear that China's radical COVID-19 policy could dampen demand in the global economy. At the same time, we are not too worried about China and the resulting economic effects. China has had a habit of reviving its weakened economy through investments to maintain the stability of the economic environment and labour market.

We believe that we will see a large-scale recovery package in China in the second half of the year to boost economic activity, and the weakness in the commodity sector should remain short-lived. Especially since inventories of all raw materials are mostly low everywhere.

Our key positions continue to be assets that benefit from the rise in prices, such as energy, energy metals, precious metals and the related value chains. In fact, we see opportunities in China's short-term weakness to acquire long-term positions in the commodity sector.

There has been nervousness on the markets for some time, and we are seeing big changes. This also brings more price volatility to the markets and creates many opportunities for the active investor. We believe that the new decade will be significantly different from the previous decade.

Unlike in the previous decade, the prices of the three largest inputs in the economy (labour, capital and materials) are rising, which will bring an uncomfortable long-term rise in prices.

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We are maintaining a significantly higher proportion of cash in our portfolios than usual to take advantage of the opportunities that arise.

We believe that the weakness in the prices of raw materials provides one of the last opportunities to buy them cheaply.

While the foundations of the economy are undergoing such a drastic change, it would be naive to think that successful investments in the new decade will follow the same investment paths that led to the rise of the markets in the last decade. Looking back over the past decade, the key issues were insufficient inflation, cheap money and falling commodity prices. Today, however, we are seeing the complete opposite.

We can see that the majority of investors, mainly users of popular passive index funds, are all-in with the winners of the last decade. They have the lowest exposure to so-called inflationary assets (which benefit from price increases), such as energy and materials.

The driving force behind the rise in prices is the rise in the price of energy carriers, which in turn has a number of reasons. The main reason is the underinvestment in old energy for almost eight years. Russia's war against Ukraine did not create new trends but accelerated existing ones. We do not expect a significant reduction in energy prices, as this would require large-scale investments in old energy, the taps of which are being increasingly tightened through regulation. The production of new renewable energy equipment requires so much energy and materials as input that if these investments increase sharply, the prices of energy metals will most likely rise several times, making these investments even more expensive in the long run. However, energy is the basis of modern life, and the rise in its prices affects almost everything.

There is another significant difference in this new environment compared to the previous decade. Over the past 15 years, a large number of investors has become accustomed to the fact that in every weak point, the central bank will come to the rescue by printing money and supporting purchases of financial assets. Now that price increases are speeding ahead as fast as Usain Bolt, the central bank has limited opportunities to stabilise markets. Instead, we see how central banks are going to sell assets rather than buy them. Central banks, the biggest buyers of the last decade, are leaving the market.

This means that we are on a journey where the prices of financial assets may fluctuate more than we are used to until now. This is a pain for passive index fund investors, but it creates opportunities for active investors.

We are in an interesting new environment that offers many novel opportunities for investors. We are maintaining a significantly higher proportion of cash in our portfolios than usual to take advantage of the opportunities that arise. We believe that the weakness in the prices of raw materials provides one of the last opportunities to buy them cheaply.

Best regards,
Kaius Kiivramees and Mikk Taras