LHV Portfolio Management

Monthly overview

November 2023

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Bullish month on the equity markets

November brought a positive turn to equity markets as major central banks signaled that the rate hike cycle was coming to an end. On the bond market, long-term interest rates fell and cheaper borrowing costs raised stock indices measured in euros by 5-6%.

Positions related to precious metals contributed the most to the increase in portfolios. Barrick Gold and iShares Gold Producers were the biggest contributors. The shares of natural gas companies Range Resources and Antero Resources fell the most. The month ended with a 1-2% increase in portfolios.

Lower inflationary pressure means that central banks do not need to raise interest rates further. That doesn't mean they will fall either. In historical comparison, the current level of US base interest rates of 4-5% is normal.

The US economy is doing relatively well in this interest rate environment: unemployment remains low, industrial production remains stable, and government spending remains high ahead of the presidential election. The leading indicators of the US economy tend to show that economic activity is increasing.

Market indices	**1month**	**2023**
European bond index	2.7%	3.7%
World Equities	5.8%	14.1%
North America	6.0%	17.6%
Europe	6.4%	11.7%
Emerging Markets	4.6%	3.4%

** The performance of MSCI indices, in euros*

What if the recession does not come?

Against the backdrop of higher interest rates and wars, investors have been fearing a recession throughout this year. Big tech equities have been bought as it is considered a "safe haven“. While the stock prices of Amazon, Apple, Google, Meta, Microsoft, Nvidia and Tesla have risen nearly 100% this year, the remaining 493 companies in the S&P500 index have moved sideways. Stock indexes have never made such a concentrated rise in history. We believe that the long-term opportunities in equity markets are more diverse.

If the feared decline in the world economy does not occur in 2024, investments outside the traditional "safe haven" offer the best opportunities in the stock markets. Due to the fear of economic recession, the buying interest in industrial companies, the commodity sector, banks and other cyclical businesses is lukewarm on the stock markets. These stocks are cheap against earnings. And even cheaper as profits continue to grow.

The return of nuclear power

The best performing position in our portfolios this year has been the Yellow Cake stock, which reflects the increase in the price of uranium. In Western countries, nuclear power is making a comeback and this has created a commodity shortage in the uranium market.

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Globally,150m pounds of uranium are mined annually in the world, 10m pounds are added from the secondary market, and the demand for uranium in nuclear power plants is 210m pounds. The uranium shortfall is covered by reserves that have fallen to low levels. The price of uranium has started to rise sharply, but since it is only a small part of the cost of a nuclear plant, it has not reduced demand.

We have invested into the uranium market with shares of Yellow Cake that is our best performing security this year. Yellow Cake shares have risen by 58% since the beginning of the year and by 93% afte we bought the position.

US natural gas is cheap

The weakest performance this year has been made by US natural gas companies. The supply of natural gas in the US has made a decent increase, which in the long run will move through LNG terminals to Europe. However, building infrastructure takes time. There are currently five LNG terminals under construction in the US, and many more constructions are planned. If the new terminals come into operation in 2024-2025, the US natural gas price should move closer to the European gas price, which continues to be nearly 5x more expensive.

We bet on the rise in US natural gas prices through the shares of Range Resources and Antero Resources. Antero Resources, which is more open to spot gas prices, has fallen by 30% since the beginning of the year, but Range Resources, which has partly locked higher gas prices for this year, has risen by 21%.

The price of gold crossed the $2000 level

At the end of November, the price of gold rose above USD 2,000 per ounce, around which gold has hovered all year. The gold price was supported by the pause in the US base interest rate hike and the drop in long-term interest rates. The demand for gold is also supported by the central banks of developing countries, which divert their reserves from US government bonds to precious metals.The portfolio's gold-related equity positions include Barrick Gold, iShares Gold Producers and Agnico Eagle Mines, which have moved essentially sideways this year..

Good yield from LHV bonds

Among the bonds, the subordinated bonds of LHV 2028, which we acquired from the issue five years ago with 6% interest, were called. We collected a total of 30% interest income from there in five years. We direct the funds to new bond investments, from which we aim for at least the same high return.

Investments

We see the best opportunities in the commodity value chain, where supply issues need long-term solutions, higher interest rates are delaying new supply coming to market and more expensive working capital has pushed inventories to low levels. As demand grows, there is good upside potential hidden here. There were no major changes in the positions in November.

Best regards,
Mikk Taras and Kaius Kiivramees