

Q2 2024 - Global Value Quarterly Update

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Hi, I'm John Goetz. I'm one of the portfolio managers on the global investment products here at Pazini Investment Management. I'm going to talk about what's going on in the world. You know, each quarter we do this video series in order to give you a sense of kind of what went on in the broader markets, but then specific to our portfolios.

This quarter was a crazy quarter. You know, I often say crazy, and sometimes that craziness is different. This is a repeating theme now: your Uber driver is conversant in Nvidia because clearly Nvidia is driving the markets. There's a huge amount of momentum behind Nvidia because it sells the chips into AI, and AI is the conversation on everyone's mind.

It turns out that in the United States, the breadth of market movement that people are happy about is incredibly narrow, even narrower than the Magnificent 7. So, if you think about that effect, what we say is that it's pretty crazy. I'm not going to spend any more time on that. You can read our newsletter and there's a separate video on the US markets.

With that, I'm going to kind of switch the conversation to the non-US part of the global world because it's pretty interesting. The US obviously is leading the world because that's where all the tech is and that's where all the AI is. Outside the United States, for the first time in many quarters—if you've been watching these videos—it's China, and China-related, particularly Taiwan, actually was a positive. And we've been talking about China being one of the vectors of opportunity over the past couple of years, so it's a pretty interesting turn there in the world.

In terms of the other geographies, I'll just point out that Japan gave back a little bit because people got a little bit over their skis, so to speak, on the Japan turnaround. We've been taking advantage of that a little bit. One of the stocks that we've been monetizing here in the global portfolio is Komatsu, the Japanese global equipment provider. They've done well. We're very comfortable with the company; it's just that as a deep value manager, valuation is key. And when valuation gets close to the midpoint, we're using that as a source of funds.

Which leads me to the other controversy in geography: Europe. People continue to be pessimistic about Europe. You may have read in the news about the French election that brought some European stocks down, particularly French-domiciled ones. So, there are controversies in geography: the negativity on China lifting a little bit, the negativity on Europe going up a little bit again. But this interesting phenomenon of performance between value and growth is much more severe in the United States because that's where the tech optimism is, than it is in Europe.

We actually made some decent gains in Europe in trimming a position in Michelin, which has done well over the last 12 months. So, those are things that are going well. We're monetizing a little bit of our gains there.

On the flip side of where does the new money go, interestingly, when you look at it from a global perspective, the biggest emerging controversy is in healthcare. We mentioned that in prior videos, that healthcare seems to be a growing opportunity. This quarter, I'll just mention that we added Humana to the global portfolios. Humana is a leader in the healthcare space, especially with respect to Medicare Advantage. Medicare Advantage is a product that is sold to people eligible for Medicare but want supplemental coverage for, I'll call it catastrophic illness or some other very expensive procedure, which wouldn't be covered under Medicare provisions. So, it's a big value add to most people of retirement age. The medical care providers and Humana specifically provide the products that the consumers want.

What's happened is there's been controversy about: Did we run up Medicare Advantage too much? Did we oversell the policies? You might have seen in the Wall Street Journal yesterday, attacking United Healthcare on making up illnesses so that they could sell the product. I think that controversy has really gotten into the rage stage, I'll say, and as a consequence, Medicare is not matching the expenses with the reimbursements. And anytime the Medicare industry—or just general managed care—the gap between expenses and reimbursement is the margin to the providers. In this case, what's happened is a normal margin of 4% has been slammed to basically nothing in many cases because Medicare has decided not to reimburse at the level required to create a margin. That's where we are today.

So, that article is kind of behind the ball a little bit in terms of saying yes, there were some practices that maybe inflated expenses; those are being dealt with. And that's the controversy today that has caused the stocks to be very inexpensive. We will bet the other side of that, that the reconciliation between proper behavior and reimbursement will renormalize. So, that's one of the controversies that we've added to the global portfolio that we have a lot of interest in. Again, buying a well-positioned company—Humana is probably a leader.

I must say we're glad that they weren't attacked in the Wall Street Journal as much as United Healthcare was, but the reality is that it is that controversy that's providing the opportunity to make money on the other side.

So again, monetizing some things that are working and taking advantage of new controversies in the world is our job in global investment management. Thank you.

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