

Investors should buy companies with top gross margins: GANÉ

Focus on companies that can pass price increases in real terms, Marcus Hüttinger says.

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'It's difficult to predict whether the current price distortions will disappear,' [Marcus Hüttinger](#) (pictured), Capital Markets Strategist at Gané, wrote in a market assessment.

The Gané team advises the [Acatis Gané Value Event](#) fund, which has returned 23.5% over the past three years to the end of May, according to the Citywire total return ranking, compared with sector average's 4.6%.

Markets and leading economists learned a lesson in April, as the core consumer price index (CPI) came in at 0.92%, the strongest monthly increase in US core CPI inflation since 1981. The rise was primarily driven by the base effects of the economy coming out of the pandemic-induced lockdowns, Hüttinger said.

'Desire to travel after the exit restrictions increased the price of airline tickets by more than 10% and hotel rooms by more than 7% in just four weeks. In addition, used car prices saw a record monthly increase of 10%. No wonder, as delivery delays for new cars caused their prices to skyrocket. Since then, Fed Chairman Jerome Powell has not tired of emphasising the temporary nature of the price increases.

'Important price components for long-term core inflation, such as healthcare and rents, had a significantly lower increase. However, the Core Personal Consumption Expenditure PCE index, which is crucial for the Fed, is now well above the central bank's target level, which is why Powell considers the necessary "substantial progress" in inflation for the upcoming "tapering" to have been achieved.'

Drain on earnings

Regarding the underlying price pressure, Hüttinger said: 'While economic forecasters emphasise the temporary nature of the rise in inflation, companies are already feeling profound and sustained price increases. Energy prices do not play a role for central bankers when considering core inflation because of their volatility. But industrial companies are sounding the alarm in rows because electricity prices are skyrocketing. At the same time, the price of crude oil is rising dramatically.'

He also noted that the prices of construction and packaging materials have risen immensely and there is a real shortage of skilled workers on the labour market, forcing companies to raise wages significantly.

'In our opinion, it is very difficult to predict whether the currently observed price distortions will actually disappear again. It also plays only a subordinate role for Gané in the selection of long-term winning companies, as long as unexpectedly strong interest rate increases do not call the attractiveness of the share into question.'

'In the long term, in an environment of permanently high inflation, precisely those companies will be successful that have a high pricing capacity. Therefore, we are focusing on long-term winners that benefit from strong consumer trends and have above-average gross margins. Companies that manage to keep customers closely loyal to their product and service range through an established infrastructure platform can sustain higher prices in a challenging environment.'

Hüttinger said that one example of this is Microsoft.

'Microsoft's recent price increases show that the cash flows of the strongest companies are likely to continue to grow in the future. And not just in nominal terms, but in real terms, and irrespective of a temporary or permanent rise in inflation.'

Quelle:

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