MASCAREIGNES
— FINANCIAL MANAGEMENT LIMITED —

MONTHLY BRIEFING OCTOBER 2019

Comments (Portfolios and Athénée Capital Model)

	Perf YTD	Perf 1yr	Perf 3 yrs	Yield Level
Modele Athénée Capital au 30.10.2019	**6.24%**	**4.39%**		**1027.23**
Monetary 3 monthes Euribor				**-0.40%**
Monetary 3 monthes Suisse				**-0.75%**
Monetary 3 monthes USA				**1.88%**
Bonds 10 yr Europe				**-0.41%**
Bonds 10 yr Suisse				**-0.56%**
Bonds 10 yr USA				**1.69%**
EUR USD	-2.69%	-1.98%	0.58%	**1.1159**
EUR CHF	-2.25%	-3.68%	1.92%	**1.1009**
GOLD (USD)	17.90%	22.58%	17.39%	**1511.96**
OIL (WTI)	19.47%	-14.84%	16.22%	**54.24**

	Perf YTD	Perf 1yr	Perf 3 yrs	Level
MSCI World $	**20.60%**	11.64%	40.54%	**6526.90**
Eurostoxx 50	**20.09%**	12.49%	19.23%	**3604.41**
SMI	**21.24%**	13.34%	31.68%	**10219.82**
CAC	**21.12%**	12.66%	28.18%	**5729.86**
DAX	**21.86%**	12.19%	22.24%	**12866.79**
Footsee	**7.73%**	1.88%	4.79%	**7248.38**
Dow Jones	**15.94%**	6.56%	49.95%	**27046.23**
SP500	**21.17%**	10.84%	43.84%	**3037.56**
Nasdaq	**24.97%**	11.55%	60.90%	**8292.36**
MSCI Emerging en $	**7.89%**	7.26%	15.44%	**1041.98**
Nikkei	**14.55%**	5.71%	31.44%	**22927.04**
Shanghai Composite	**17.45%**	12.39%	-6.19%	**2929.06**

(Source Bloomberg 31.10.2019/ Indices Absolute Return)

Portfolio Arbitrage
Disclosed only for our clients

Between the summer panic and the apparent autumnal serenity, it looks like investors have entered a virtuous trading circle : equity indexes are at new highs, bond market excesses tend to normalize, volatility (and volumes !) are falling – to make it short, we could almost entitle our Monthly Briefing "Brave New World", driven by accommodative central banks (in unison), earnings better than expected, strong consumption in the US and of course, speculation about the successful outcome of the Brexit and the trade war, that have kept operators on their toes for ages (something that may well go on for a while).

However, the surface of things conceals many rough edges, unvisible on the media front page, which deserve a serious in-depth study, regarding the quality and especially the trend related to earnings. It has been almost three weeks now that operators have been celebrating above expectations turnovers and Q3 earnings - indeed forecasts are often beaten. Though it is worth emphasizing that from 2018 to 2019, more than one in two companies have reported declining results. **Margins are deteriorating in all sectors** (except for utilities and telecoms), which is likely to raise concerns about current valuations: **there is a dichotomy between the reality of results (on a downward slope) and their perception (a positive illusion provided by profits higher than whisper numbers)** ; we will fully develop this topic in our Quarterly Letter (to be published around November 18).

Some may argue that low interest rates justify current valuations, especially in the United States. However, there are signs that this low rate environment can not last forever (see Fed speeches, dissensions within the ECB). In an environment where profit growth is slowing down, where median debt relative to Ebitda is increasing (for BBB bonds issuers), **we could see these companies' ratings downgraded in 2020 and their margins continue to contract**.

This would have negative effects on both balance sheets and financial markets, especially as banks, beyond all expectations, are becoming increasingly reluctant to lend – being victims themselves of negative rates which impact their benefits and solvency ratios. In this context, **many companies are now turning to the private sector for financing their business : the famous shadow banking** (the scope and solidity of which is unknown) - and which could be at the origin of the problems met on the repo market last September in New York (it is worth noting that the NY Fed further increased its intervention capacities from $75 billion to $120 billion at the end of October).

The very resilient world of finance is therefore not as wonderful as it seems - this is reflected by **the evolution of the indexes, oscillating in a narrow trading range,** with no real trend since last April - investors are relieved by the absence of microeconomic drama, nevertheless concerned by the deterioration in macro figures (particularly in the manufacturing sector), not to mention the ongoing political background noise, which amounts to "one step forward, one step backward", in other words to small measures with an agenda, far from solving major antagonisms that may change the world economic order, as we know it.

The current no-man's-land could lead to a vigorous reaction on indexes, whether a melt-up or a melt-down, depending on how you look at the glass : half full or half empty ! With a short term view, it looks risky to make strong bets, thus we only add to our portfolios strategies based on options - with short maturities - and keep liquidity to seize opportunities in the event of any excess. In the medium term, **we remain very cautious on both equities and bonds, as current entry points offer a limited upside compared to the according potential risks** - our preference goes to real assets (real estate and gold) and non-directional investments.

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