# MONTHLY BRIEFING JANUARY 2020

MASCAREIGNES
— FINANCIAL MANAGEMENT LIMITED —

## Comments (Portfolios and Athénée Capital Model)

| | Perf 2020 | Perf 2019 | Yield Level |
|---|---|---|---|
| **Athénée Capital 29.01.20** | **-0,02%** | **7,05%** | **1035,05** |
| Monetary 3 monthes EU | | | -0,40% |
| Monetary 3 monthes CH | | | -0,69% |
| Monetary 3 monthes US | | | 1,55% |
| Bonds 10 yr Germany | | | -0,44% |
| Bonds 10 yr Switzerland | | | -0,79% |
| Bonds 10 yr USA | | | 1,51% |
| EUR USD | -1,07% | -2,21% | 1,1093 |
| EUR CHF | -1,54% | -3,55% | 1,0689 |
| GOLD | 4,74% | 18,30% | 1589,16 |
| OIL (WTI) | -15,16% | 34,46% | 51,56 |

| | Perf 2020 | Perf 2019 | Level |
|---|---|---|---|
| MSCI World in $ | -0,61% | 27,67% | 6867,60 |
| Eurostoxx 50 | -2,78% | 24,78% | 3640,91 |
| SMI | 0,10% | 25,95% | 10627,88 |
| CAC | -2,87% | 26,37% | 5806,34 |
| DAX | -2,02% | 25,48% | 12981,97 |
| Footsee | -3,40% | 12,10% | 7286,01 |
| Dow Jones | -0,99% | 22,34% | 28256,03 |
| SP500 | -0,16% | 28,88% | 3225,52 |
| Nasdaq | 1,99% | 35,23% | 9150,94 |
| MSCI Emerging en $ | -4,69% | 15,42% | 1062,34 |
| Nikkei | -1,91% | 18,20% | 23205,18 |
| Shanghai Composite | -2,41% | 22,30% | 2976,53 |
| *(Indices Source Bloomberg au 31.01.2020)* | | | |

*We will refer to the US election campaign (whose impact is marginal at this stage) in our Quarterly Letter – published later in February.*

The comeback of the volatility in January has taken both bulls and bears by surprise. In fact, tensions between USA and Iran, the coronavirus outbreak in China and the start of Q4 2019 earnings season have sent equities (and all asset classes in general) flying into different directions within a few weeks ; enthusiasm has been followed by fear (and vice versa), corrections were abrupt and short lived, rebounds were strong (all of these moves being as well-argued as a bunch of tweets).

It is worth emphasizing the market context: stocks have been extraordinarily bullish for a couple of months, thanks to accommodating central banks and the absence of alternative regarding returns. Beginning of January most metrics suggested that the market was overbought. The Nasdaq has closed at record high 28 times, the most in a 3 month stretch since February 2000. **In other words stocks were (and still are) priced for** perfection and an overreaction to bad news, when it happens, is ineluctable.

For a short period, we thought that tensions in the Middle East would be the pretext for profit taking (but nay!), that the coronavirus crisis would inspire caution for a longer period (nay again!) : **actually the markets tend to absorb bad news with astonishing resilience** (or shall we write instead : complacency?), as long as liquidity is abundant and the epidemic limited within China borders ; in that case the coronavirus crisis is not considered as a threat for the growth cycle, despite 50 million consumers / workers stuck at home (the equivalent of a country like France, a concept very difficult to think of !)

**Investors are obviously expecting that the disruption across China would be temporary** and that the policy response by Asian central bankers would be enough to inject into markets needed liquidity - this explains the rebound observed those last days.

**Portfolio Arbitrage :**
**Disclosed only for our clients**

However it is ignoring the potential **consequences resulting from the largest quarantine in history. China accounts now for 18% of world GDP** (and no longer 4% as in 2003, when the SARS crisis happened). Actually uncertainty over containment is quite a wild card. Also it may be too soon to fully dismiss the possibility of a pandemic (the peak of the epidemic is estimated to end in April) – this would bring bigger turbulences and wane on companies prospects, probably all over the world ; Q4 2019 earnings have been quite “satisfying” for now (based on 50% of the S&P500 companies reports, EPS are stable compared to Q4 2018…). But several CEOs have already expressed their concerns regarding the paralysis in China.

**The economic impact of this health crisis will depend on the duration of the outbreak and its potential spread worldwide** ; any progress regarding a treatment would be welcomed with great relief – though it is limited to tests for the time being and vaccines shouldn’t be available before months, best case.

Therefore bargains hunting in Asia looks premature – caution leads us to monitor how the Chinese economic machine will get back on track, before buying anything in the region; as for the rest of the world, we cannot really use the word "opportunities”. The stock markets have almost returned at their historical highs - though with strong disparities within the indexes, both in terms of YTD performance, sectors and earnings forecasts.

In conclusion**, it seems that investors have to deal with numerous external parameters, seriously blurring the reading of microeconomics**. Therefore, we stick to our previous recommendation : identifying sectors / areas trading at reasonable prices (and structuring defensive investment vehicles around these themes), also focusing on dividends and decorrelation strategies (including real estate, precious metals, currencies…).