



MONTHLY BRIEFING JULY 2020

Comments (Portfolios and Mascareignes FM Model)

	Perf 2020	Perf 2019	Yield Level
MFM Model 30.06.2020	-3.38%	7.05%	997.21
Monetary 3 months EU			-0.53%
Monetary 3 months CH			-0.74%
Monetary 3 months US			0.16%
Bonds 10 yr Germany			-0.44%
Bonds 10 yr Switzerland			-0.44%
Bonds 10 yr USA			0.68%
EUR USD	0.13%	-2.21%	1.1227
EUR CHF	-2.00%	-3.55%	1.0632
GOLD	17.47%	18.30%	1782.36
OIL (WTI)	-35.05%	34.46%	39.66

Why is the stock market rising at a time of one of the worst recessions in history?

The cost and socio-economic consequences of fighting coronavirus are absolutely gigantic and unprecedented. More than 10 million people are now affected by Covid-19, including nearly 2.7 million Americans, which has led to a planetary lockdown - resulting in unemployment rates not seen for several decades and negative GDP forecasts almost all over the world.

Though you wouldn't know about such a terrible situation just by looking at the stock market! On the contrary... The Dow Jones and the S&P 500 have clawed back a large percentage of their first-quarter losses, while the Nasdaq has posted an insolent rise of more than 12% YTD. The European indexes are lagging (due to the lack of technology components) but they are nonetheless well above their disastrous levels observed end of March.

The disconnect between Wall Street (the stock market) and Main Street (the rest of the world!) is more pronounced than it's ever been in recent memory, if not puzzling. How can this be? Why are equity markets rising in the midst of the storm?

The answer is simpler than it seems. Markets, first and foremost, are forward-looking vehicles; they focus on the future, ignoring the present and even more the past. The stock market rally observed in Q2, despite the catastrophic economic situation, is based on three major expectations:

- 1. The worst is behind us:** de-confinement and hope of a vaccine will allow the world to gradually return to a more or less "normal" pace of work, travel and life.
- 2. Coordinated fiscal and monetary stimulus measures will continue;** operators expect governments and central banks to intervene massively to limit the effects of a possible Covid-19 second wave. Clearly, stimuli measures can't solve all the problems, but it is an absolute critical piece of restoring confidence, fostering consumption and job creation.
- 3. Investors are also betting that interest rates won't rise in the near future** (not before 2023 according to the Fed), which brings us back to the simplistic but effective conclusion: TINA (There Is No Alternative... There is no other choice but to buy shares to preserve capital from erosion).

	Perf 2020	Perf 2019	Level
MSCI Monde en \$	-6.86%	27.67%	6435.91
Eurostoxx 50	-13.65%	24.78%	3234.07
SMI	-5.38%	25.95%	10045.30
CAC	-17.43%	26.37%	4935.99
DAX	-7.08%	25.48%	12310.93
Footsee	-18.20%	12.10%	6169.74
Dow Jones	-9.55%	22.34%	25812.88
SP500	-4.04%	28.88%	3100.29
Nasdaq	12.11%	35.23%	10058.77
MSCI Emerging en \$	-10.83%	15.42%	993.96
Nikkei	-5.78%	18.20%	22288.14
Shanghai Composite	-2.15%	22.30%	2984.67

(Indices Source Bloomberg 30.06.2020)

**Certificat Athénée Mercury
(Stocks Long Only)**

+11,02%
(du 27/03/2020 au 30/06/2020)

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In this context, valuations have skyrocketed and some more steam could be expected within the coming weeks, despite the return of the pandemic in several regions of the world. **The rise in coronavirus cases has not been ignored** (cf. daily volatility, flat consolidation of indexes) - **which could suggest that we are not (yet) in a phase of total mania.**

Spreading rates of Covid-19 infections in the United States and Latin America, alongside risks of sporadic outbreaks in Europe and Asia, could easily rattle markets, especially after their powerful gains since the beginning of April - but this would rather be a **buying opportunity** : indeed, improvement of the market dynamics (cf. points 1, 2 and 3), amplification of stimulus measures and better momentum after EPS revisions (a potential factor for good surprises) are sufficient reasons to adopt a positive bias on medium-term risky assets.

Appetite for risk is at an extremely high level, thus we believe it is wiser to implement a **gradual and diversified approach** versus an aggressive one – as a new wave of self-inflicted confinement cannot be excluded. Individual stay-at-home decisions (vs government imposed restrictions) could lead to less consumption and to a U/L recovery instead of the V scenario currently priced in by investors.

The race for the White House is also a factor of uncertainty in the United States, which is why **we favor the euro zone for the time being**, especially as EU leaders seem to prioritize (at last) strong and credible policy action.



Our preference goes to **quality stocks (via options: sell puts, ladder strategy)** and, more occasionally, to **so-called deconfinement stocks**. We also have a **bullish bias on the euro currency** and keep our **real assets allocation**, given the abundant liquidities and being aware that between necessary optimism and bubble formation, there is just a tiny frontier : common sense !