MONTHLY BRIEF JUNE 2020

Comments (Portfolios and Mascareignes Investment Management Model)

"Sell in May and Go Away": Too late for this year, yet we almost believed it! Indeed, we have had the feeling, for the past few days, that nothing can stop the equity markets, the recovery is around the corner and that the Covid episode is now well and truly behind us.

The reason? **An unprecedented surge of capital** from central banks, **along with numerous fiscal and budgetary policies**, which **boosted investors hopes** (including small retail investors benefiting from federal aid in the United States, who invested mainly in stocks, instead of overseas travel, luxurious shopping or sports betting). Since the March 23 worst figures, the "techs" stocks have enabled the US indices to recover faster. This explains the outperformance of the Nasdaq until early May and, in turn, the slower recovery of the European indices, consisting mainly of companies of the industrial sector.

The statement from Powell made on May 17, an agreement in principle between Merkel and Macron on the following day (regarding the stimulus package of €500 bn in Europe, with an additional € 250bn to worst hit sectors), the hope of a vaccine against the Covid-19 have helped to believe that the bearish tendency during the month of March was far behind. Also, the investors could enjoy, with the same appetite for risk, the de-confinement and the hope of a V recovery, which **triggered an unprecedented rush for lagging stocks / sectors / geographic areas**.

	Perf 2020	Perf 2019	Yield Price
Model MFM 02.06.2020	**-3.38%**	**7.05%**	**1000.05**
Money Market-3 month EUR			-0.52%
Money Market-3 month CHF			-0.65%
Money Market-3 month USD			0.14%
Bonds 10 years Germany			-0.42%
Bonds 10 years Switzerland			-0.46%
Bonds 10 years US			0.67%
EUR USD	-0.96%	-2.21%	1.1104
EUR CHF	-1.64%	-3.55%	1.0675
GOLD	14.04%	18.30%	1730.27
Oil (WTI)	-41.88%	34.46%	35.49

	Perf 2020	Perf 2019	Price
MSCI World USD	-8.20%	27.67%	6343.31
Eurostoxx 50	-18.56%	24.78%	3050.20
SMI	-7.40%	25.95%	9831.49
CAC	-21.46%	26.37%	4695.44
DAX	-12.55%	25.48%	11586.85
FTSE	-19.43%	12.10%	
Dow Jones	-11.06%	22.34%	25383.11
SP500	-5.77%	28.88%	3044.31
Nasdaq	5.76%	35.23%	9489.87
MSCI Emerging USD	-16.53%	15.42%	930.35
Nikkei	-7.52%	18.20%	21877.89
Shanghai Composite	-6.48%	22.30%	2852.35
(Indices Source Bloomberg au 29.05.2020)			

Therefore, within 15 days, between May 19 and June 3, the CAC and the DAX increased by almost 13% while the Nasdaq "nibbled only 5%" . **Investors have switched to "risk on" mode** (stocks rising sharply; US Dollar and Swiss Franc falling against the Euro; gold and bonds were subject to profit-taking), driven by the support (which remains to be seen) of the EU to its members and the intervention of the ECB, with the expectation that everything (except the Covid) will return to normal.

Never go against central banks - once again, the stock market adage has been proven, the upward market movement seems to be maintained, due to the famous FOMO. **But until when?**

Since **the markets have to deal with players with no limits in terms of time or amounts** (we are referring to the powers of the Fed and the ECB), we would be tempted to believe that there is no end to the upward movement; price fixing, based on supply and demand, is subject to a great imbalance (and therefore traditional valuation techniques becoming more and more inaccurate). **The possible consequences of these monetary and budgetary policies will undoubtedly be revealed only in the long term**: the likelihood of future bubbles on all asset classes, inflationary pressures (cost push) and excessive support to zombie companies (questionable capital allocation - with all the societal consequences that could follow).

In the short term, the massive intervention of central banks and governments left investors with no choice but to turn towards the riskiest asset classes so as to avoid erosion of their wealth : TINA "There Is No Alternative"!

However, in view of the historically high stock market valuations and the major uncertainties that exist in the "real economy", **financial assets, in particular equities, could again become particularly vulnerable to any external shock** (which we have already mentioned last December): certain themes could diminish the enthusiasm of the market players and force the monetary authorities to intervene, once again, with many trillions and unexpected solutions to help (for instance, the repurchase of shares). / See our insert: Summer will be hot!

For the time being, we are sticking to a pragmatic approach: we preciously hold on to real assets in our portfolios and temporarily adopt an evolving strategy (buy on weakness with short maturity stops). We are holding on to a significant amount of liquidity, with the intention to benefit from opportunities of pull backs (in particular strengthening our Athénée Mercury certificate - active management of US and European securities).

MONTHLY BRIEF JUNE 2020

Comments (Portfolios and Mascareignes FM Investment Management Model)

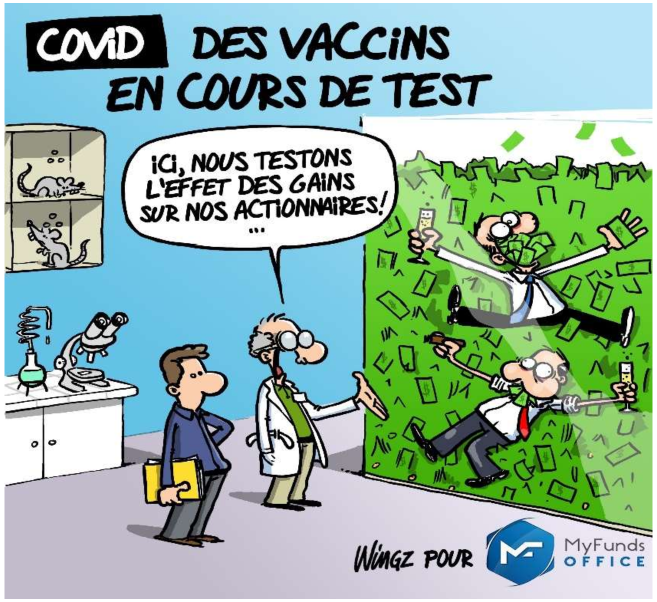
Summer will be hot!

Despite "the whatever it takes" strategy, the new global credo to halt the recession, some matters could well stop the upward tendency over the next months, for which there is no cure even in a world of speculation. However within the management space, it is worthwhile to take into consideration such risks. We are here referring to short-term measures and will provide further details the medium term risks, such as bubbles and inflationary pressures, in our next newsletter.

Not in any order and above all not exhaustive:

1. **The Techs**, who had the heyday of 2019 (and the 2000s in general), reached stratospheric valuation levels and political leaders may well focus their attention on Twitter, Facebook, Amazon, Google and others: namely GAFAtax in France (which could give ideas to other countries), cf. power to dismantle by part of the Democrats, cf. willingness to control the power of these giants (by Trump who wants to soften the rules, by Biden who wants to toughen them)**. If the Techs start to weaken** - remember that the 5 "usual suspects", the famous FAAMG, represent more than 20% of the S&P500 **- it is likely that the recent rise, driven by value, will fizzle out.**

2. At the beginning of 2020, we viewed that the global PERs were high and now we return to the same levels - or even above, with the added **effects of the Covid crisis, which are obvious for the real economy and its operators** - and this risk may well last: **20% of unemployed in the United States expected on June 5 against 3.5% 2 months ago**. Even if we return to 10% level at the beginning of 2021, it would still make people jobless... **which would not be without increasing social pressure**: inequalities, poverty, widening disparities in terms of education, health ...



The abbreviation soup

FOMO : Fear Of Missing Out => fear of missing out upward movements and the bandwagon with the train already departed
TINA : There Is No Alternative => bonds offer low to negative yields, the only alternative left is stock market investing
GAFA : Google Apple Facebook Amazon
FAAMG : Facebook Amazon Apple Microsoft Google (le M of Microsoft which replaced N of Netflix)
Pffffffffff: painful !!!

3. **So many issues that will surely come up in the US election campaign, even taken to the streets**: only two months ago, no one was wondering who would be the future President of the United States. Even if the elections will be a neck to neck tie in the fall, the fact remains that the Democratic strategy is more and more plausible; in a social context which is likely to become more tense, the potential arrival of Biden and his VP will inevitably have consequences on taxation, in particular that of companies – **current stock market levels do not factor-in hikes in taxes**, likely to dampen earnings of already struggling companies (shutdown, de-globalization, increase in savings etc).

4. This brings us to the **risks of bankruptcies and defaults :** surely the ample surplus of liquidity and the gradual recovery of consumption should limit the damage. However, there is one sector in which the Fed has not interfered, namely that of leveraged loans, which have only increased by about 15% since March 23, which is half less than stocks. Banks would sell these leveraged loans at the fastest pace for months, seeking to get rid of the risks accumulated before the pandemic ... this reflects the nervousness of lenders and the questionable quality of certain debts – indicating that the restart may not be a boom in "the real world ".

5. Finally we have the **on-going Sino-American saga** which makes the headlines (and on which we will not dwell, since we have been able to read and write about it almost everything and its opposite, for two years) There is also the risk of emerging countries, oil producers, etc etc etc.

«Mais qu'importe le flacon, pourvu qu'on ait l'ivresse !» (Charles B) – which means that irrespective of the method, the risks and the consequences over the long term, markets have to hold on…