MONTHLY BRIEFING FEBRUARY 2021

Comments (Portfolios and Mascareignes FM Model)

From a growth model
to a guru model !

When the house burns, who is coming to our rescue ? The firemen! When a government can't agree on how to spend generous grants (hard to believe, isn't it ?), who do we turn to? To the banker fireman! It sounds like a kindergarten joke, but that's what is currently happening in Italy: President Mattarella has asked Mario Draghi, former President of the ECB, to form a new government; **the central bankers' reputation for saving the financial planet is quite well established, but here we have just gone a step further.**

Shuttling back-and-forth between populist demagogues and unelected technocrats is about to become the default model of Italian politics. And we should worry a little about it, since Italy will be the largest beneficiary of the EU's recovery fund, with 200 billion euros in grants and cheap loans. This represents 27% of the fund and, under these circumstances, all European taxpayers should feel concerned by a governance that is more erratic than totally democratic!

Of course, even if Mario Draghi's economic and monetary mastery is reassuring for EU's elite, it is worth noticing that under his governance the ECB became much more interventionist and innovative: the central bank embraced Quantitative Easing. **More important Mario Draghi argued for the ECB to push one of its key interest rates into negative territory which has led to the famous TINA** : even cautious investors have now to be risk on and to pay interests if they wish to remain cash; and by the way who did really borrow money with *"a minus something rate"?* A few institutions, maybe, **but for common people, common rules apply: you are charged, one way or another**, whether you are in the green or in the red!

This policy is also distorting asset allocation. No need to blame the pandemic – the artificial pump implemented by central bankers more than a decade ago created a monster that needs to be fed constantly, it generates risk imbalances and encourages excesses in some equities pockets, **currently raising the question of how to fix asset prices!**

MFM/Athénée Mercury Certificate (International Stocks Long Only)	**+0,84% YTD**	**+21,27% (from 27/03/2020 to 29/01/2021)**

"Redditters" and consorts are nothing but the result of loose monetary policies: massive cash injections coupled with digital platforms (in other words free money in a free commission world) **entail the uberization of finance** (see page 2). Regarding this phenomenon, we have to admit that it is quite fascinating to observe a coalition of individuals making bets depending on their mentors' convictions also called "Evangelists of Innovation"(*).

A word on Twitter from Elon Musk (Tesla), Chamath Palihapiliya (Social Capital) or Cathie Wood (Ark Investment) is enough to create a rush on cryptos or targeted equities**. It looks like part of the investment process has turned from a growth model to a guru model: strong belief in a stock, by a well organized digital community, seems to be able to propel prices higher than the sky**, in total disconnection with fundamentals and common sense!

While it is tempting to view the retail traders saga as yet another twist in the long history of Wall Street, this oddity, however, has an impact on traditional players: hedge funds (e.g. Gamestop short squeeze) or ETFs and benchmarked strategies (the MicroCap ETF is up 28% YTD and the Russell 2000 is +16% YTD).

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The wild swings in some assets are all the more disturbing that the so-called "Evangelists of Innovation" (Musk / Palihapiliya / Wood) have developed a very reflexive system (for their own benefit) : the more popular they become, the more money flows they attract, which in turn fuels their businesses(*).

To make it short: no free lunch, no free tweet! We may call it investment advice or manipulation – though there is nothing illegal in sharing a point of view – but the gamification of trading has already shown the potential to be a systemic risk to broader markets, even though it may vanish as fast as it emerged ! Only time will tell.

For the "old guard", the general feeling is that this mania is not likely to end well. Their argument is that **uberization of trading will die down partly because it is fueling a bubble with no underlying support from measures of value** (like sales, earnings, patents).

Performances	2021	2020	2019
STOXX600	-0,79%	-4,04%	+23,16%
CAC	-2,74%	-7,20%	+27,86%
SMI (CHF)	-1,05%	+0,82%	+25,95%
S&P500 $	-1,11%	+16,26%	+28,88%
NASDAQ $	+1,42%	+43,64%	+35,23%
MSCI Emerging $	+2,97%	+15,84%	+15,42%
EUR / USD	-0,61%	+8,94%	-2,22%
Gold $	-2,67%	+25,12%	+18,31%
Yield TNote / US 10 year	1,07%	0,91%	1,92%
Allocation Tracker Classique	**+0,22%**	**-0,83%**	**+7,05%**

Our point of view is that trends can't be ignored (particularly the momentum effect), even though we recommend to stay away from highflying stocks and just stick to the basics : for now, central banks are providing ample cash to stock markets in order to keep the steam on. American household savings (1.6T$) should be able to power a robust consumer recovery, once (if) vaccinations restore a sense of normalcy - Europe may follow, but later, because of poor vaccine rollouts. Actually, the real driving force for the coming weeks remains Covid19 (with its possible resistant mutations) and reopening plans, which may occur rather sooner than later in the United States.

Thus we favor US stocks on the very short term as well as commodities since the US dollar may also get a boost from the rapidly steepening yield curve. We pay particular attention to entry levels, given the enthusiasm surrounding a few equities; our sectors' picks are for the middle / long term (space, hydrogen, recycling, digital education). Above all, **we keep a close eye on yields, which may well play the party-killer later this year** (unless central banks engage in aggressive "yield curve control", which would tell us who really rules the world!).

The Uberization of Finance: a revolution, really? (**)

Robinhood, among others, has provided the infrastructure behind the Gamestop rebellion. The broker wants to be seen as a revolutionary, disruptive force. Its heritage points towards Uber, AirBnB, WeWork – all these digital firms promising to democratize one thing or another – transportation, accommodation, office space – and to do it for the greater good. Like its predecessors, Robinhood is following the same path: power to the retail investors!

Many of us might be enchanted by the rhetoric of democratization accompanying the cheap online brokerage platforms. Nonetheless it seems that a group of social addict dreamers are willing to use trading for ideological purposes, promoting conspiratorial theories – and thus authorizing the emergence of a sophisticated, urbane and cosmopolitan populism. **Like most of populist movements, platform populism does not feature any coherent political ideology of its own, it is just business as usual: use of greed (for now) and fear (for later)** with the support of some powerful mentors! To be followed.

(*) Inspired by an enlightening article written by Chris Bryant / Bloomberg : https://www.bloomberg.com/opinion/articles/2021-01-29/why-reddit-adores-cathie-wood-chamath-palihapitiya-and-elon-musk
(**) Inspired by comments from Evgeny Morozov, with a bias ! / The Guardian : https://www.theguardian.com/commentisfree/2021/feb/03/gamestop-platform-populism-uber-airbnb-wework-robinhood-democracy