ATHÉNÉE PATRIMOINE

MONTHLY BRIEFING AUGUST 2020

Comments (Portfolios and Athénée Capital Model)

If you are listening to the media a distracted way, you may think that global stock markets are in levitation like the GAFAM group (Google, Amazon, Facebook etc) and that all goes for the best with risky assets. But beyond the media hype surrounding the famous "tech stocks", there are some major disparities among indexes, sectors and geographical areas:

1. All European indexes ended up falling in July: CAC -5.26%, Dax -2.34%, SMI -1.78%, and Eurostoxx -4.39%. They were overshadowed by economic reality: companies are very cautious about their activity within the coming monthes, some businesses remain frozen, households and companies are struggling to consume/invest due to a potential Covid second wave, coming bankruptcies, high level of unemployment, global lagging confidence, international trade tensions, etc.

2. Meanwhile the S&P500 and the Nasdaq gained 4.51% and 5.27% respectively, while the dollar lost 4.80% over the month: without currency hedging, a European or Swiss investor would have seen his profits shrink to almost nothing!

Through a kind of magnifying glass effect, we have the feeling that all equities are doing well, however only a minority of stocks are really skyrocketing (remember that GAFAM stocks represent now more than 22% of the S&P500 from 16% in 2019) and **that portfolio allocations must be analysed in the light of contradictory financial elements**, stressing out the lack of visibility and convictions:

- euro is up against dollar, while most European sectors remain quite depressed.
- the US stock market rebound goes with a stable bond market, which is quite unusual, and an impressive rush on precious metals - considered as hedge or safe havens.

	Perf 2020	Perf 2019	Yield Level
Athénée Capital Model 31.07.2020	**-3,45%**	**7,05%**	**995,03**
Monetary 3 monthes EU			-0,58%
Monetary 3 monthes CH			-0,75%
Monetary 3 monthes US			0,10%
Bonds 10 yr Germany			-0,53%
Bonds 10 yr Switzerland			-0,56%
Bonds 10 yr USA			0,53%
EUR USD	**5,04%**	-2,21%	1,1778
EUR CHF	**-0,91%**	-3,55%	1,0758
GOLD	**30,23%**	18,30%	1975,87
OIL (WTI)	**-34,05%**	34,46%	40,27

	Perf 2020	Perf 2019	Level
MSCI Monde en $	**-1,26%**	27,67%	6822,60
Eurostoxx 50	**-15,24%**	24,78%	3174,32
SMI	**-5,76%**	25,95%	10005,90
CAC	**-19,98%**	26,37%	4783,69
DAX	**-7,06%**	25,48%	12313,36
Footsee	**-21,81%**	12,10%	5897,76
Dow Jones	**-7,39%**	22,34%	26428,32
SP500	**1,25%**	28,88%	3271,12
Nasdaq	**19,76%**	35,23%	10745,27
MSCI Emerging en $	**-3,21%**	15,42%	1078,92
Nikkei	**-8,23%**	18,20%	21710,00
Shanghai Composite	**8,52%**	22,30%	3310,01

(Indices Source Bloomberg au 31.07.2020)

Athénée Mercury Certificate (UE and US Stocks Long Only)	+8,11% (from 27/03/2020 ato 31/07/2020)

So how can we explain this sudden surge in gold and silver (+10% and +34% in July) accompanied at the same time by a sharp fall in the dollar?

Negative interest rates, fears about the economic outlook, but also doubts regarding the current White House policy (if there is any), have given both gold and silver a big boost as they are heading to their bigger annual gain in a decade. In addition, the supply of gold is relatively fixed while the supply of Treasuries is just soaring, turning into a Danaïd barrel.

Now some technical indicators are showing precious metals as hyper bought, however the trend could remain stable to bullish - depending on the **degree of investors' anxiety during the summer : indeed, gold prices are all about uncertainty**. But at some stage of the recovery, we will reach a point where Central Banks will maintain an accommodative policy, without adding liquidity ; then, real interest rates should rise (at least stop declining) and gold may well lose some of its attractiveness. Something to watch out !

Above mentioned macro factors lead the **USD to a 7% loss versus a basket of 6 currencies since mid may**. This change ranked among the most extreme moves since 1973, the new **Covid cases (particularly in the USA) and the heavy US Treasury issuance to be blamed** - and not some kind of improvement in Europe: the EU going into debt jointly, with its €750bn stimulus package, is certainly a first but is just the necessary response to disastrous consequences of the pandemic and confinement.

The White House's **swings in the run-up to the presidential elections are probably also contributing to the slippery path of the dollar:** permanent tensions with China, threat of election postponements, difficulty in determining the conditions for a new fiscal stimulus, unprecedented interaction between public and private affairs, not to mention erratic management of the pandemic - all these are factors of diversification from the greenback. A sustained erosion of the USD could spur a major asset allocation shift, in favor of emerging zones for instance – as already observed in July, with Shanghai index gaining more than 7%.

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The recent evolution of gold and dollar seem to indicate a lack of confidence in the global economic outlook ; it can also be a sign of some social / political troubles ahead. However, American indexes are at or close to historic records, despite a disastrous Q2 GDP (Europe is far from doing better), ongoing jobless claims and prospect of stormy elections; US valuations are particularly stretched though unlimited liquidities seem to support technology prices an unlimited way. Covid may actually even inspire a new industrial revolution - the heavy reliance on digital - where rich California companies (creating value and jobs) could have a big say, in the same way as the representatives of the Senate or the House (exceling in the art of digging up deficits): so when shall we choose between the Amazon Bitcoin, the Apple School, the Microsoft Health Insurance or the Google Retirement Plan, to make it short when will we see wealthy private social systems, within the same country, replacing shattered public institutions ?

In a low interest rate environment, the US equity market could well remain overvalued for long periods of time, leaning investors with uncomfortable decisions : cheap assets remain close to their lowest levels (in the absence of guidance, particularly in Europe) while super expensive assets continue their rally as if nothing could stop them, consolidating flat in the worst case scenario.

Once again, risk-taking is the only possible way to perform for now: in this context, an investment strategy is getting quite popular - **we call it the "Eyes Wide Shut" strategy as it consists in buying momentum stocks, whatever their price,** supported by the Fed's policy and hope of a vaccine ; investors are riding the markets blindly, i.e. ignoring the obstacles along the way or even the possible wall at the end of the tunnel, all fingers crossed that the locomotive won't run out of steam nor crash.

To this strategy, we prefer the so-called "Eyes Wide Open" strategy, i.e. seizing opportunities in a downturn, buying securities directly or via options with solid balance sheets, as well as de-confinement stocks (which are laggards for now, thus cheap – nonetheless essential in case of a recovery within 6/12 months); we also focus on companies linked to the European Green Deal.
We have temporarily taken our profits on gold and euro - but will of course invest in these assets again, when levels become justified and justifiable. We sold/hedged all of our dollar exposure at the beginning of June; we start to buy some dollar vs euro at current levels with the idea of investing in emerging debt or US techs ETFs, should we have a pullback this autumn.

** France is about to build a space force ** I am your sister's in law cousin !*
We like the ETF "UFO US". (Space Sector!) that is part of our Athénée Mercury selection

We wish you all a great summer!

For those of you on holidays, at the beach or at the swimming pool (or even bored at the office), please find next page a little quiz:
Who wants to be a trillionaire ?

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Summer Quiz : Who wants to be a trillionaire ?

untranslatable

1. Members of the US House of Representatives who questioned the CEOs of Facebook, Amazon, Google and Apple on Thursday July 30 (regarding an eventual dominant position) are preparing to manage a budget deficit of around $5 trillion, while at that time, **the 4 tech titans valued at nearly a collective ??? $.** The next day, in 24 hours, their market value increased by $370 billion (roughly half of the annual Swiss GDP). About the desire to dismantle these giants, about the difficulty to do so: money talks and...

☐ **$5 Trillion** ☐ **$10 Trillion** ☐ **$20 Trillion**

2. US households increased their savings by 25% in Q2, compared with 9.5% in Q1. **The rise in savings of ??? $ during the quarter** is twice the drop in consumption spending - this extra savings could be consumption supportive in months ahead unless it continues to fuel Nasdaq values!

☐ **$1 Trillion** ☐ **$3 Trillion** ☐ **$7 Trillion**

3. The Fed owns $4.2 trillion in U.S. government debt, **or about ??? % of the total outstanding.**

☐ **10%**

☐ **15%**

☐ **20%**

4. Small players... EU leaders agreed on a landmark stimulus package that will see the bloc issue € 750 billion of joint debt to help member states mitigate the economic downturn (€ 390 billion of grants and € 360 billion of low interest loans). Almost one third of the funds are landmarked for fighting climate change and together with **the bloc's next ??? € 7 year "Next Generation EU" budget**, will constitute the biggest green stimulus package in history.

☐ **€750 Billion** ☐ **€1 Trillion** ☐ **€2 Trillion**

Cat got your tongue? And the answers are...

1. The U.S. government will run a deficit close to $5 trillion, which is the equivalent of the collective market value of Facebook, Amazon, Google and Apple, estimated at more than $5 trillion (and that's without Microsoft's market cap > $1.5 trillion).
2.The increase in US savings in Q2 amounted to $3.1 trillion, while the market value of domestic companies increased by $7 trillion at the same time!
3. The Fed owns 22% of U.S. government debt.
4. In Europe, the so-called "Next Generation EU" budget is €1 trillion, bringing the total amount of the Green Deal to 1.8 T€.

Valid for the week...☺

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