ATHÉNÉE PATRIMOINE

MONTHLY BRIEFING APRIL-MAY 2021

Comments (Portfolios et Athénée Capital Model)

Seeking for Return Desperately…

Q1 earnings have been terrific in the USA – though it looks like good news and recovery are already priced in and for perfection. At the same time, **the desperation of investors to garner any real return is driving indexes higher and higher** ; low yields have fostered a plethora of unlikely complex investments (from EV manufacturers that sell less than 10,000 cars a year, to virtual art, NFT, SPAC and whatever other fintech wonder comes next) - because investors want return, whatever it costs! This situation has generated an impressive rotation within the stock market : low-quality stocks now trade 1.2 times the broad market while quality stocks with strong balance sheets trade at just 0.9 times.

Even the Fed warns of peril for asset prices as investors rush on risk. "Vulnerabilities associated with elevated risk appetite are rising" (Governor Lael Brainard - May 6th 2021).

Near zero interest rates and massive bond purchases have fueled a search for any opportunity, even riskiest and illiquid ones. In other words, fear is not driving the stock market, at least for now, only greed seems to inspire investment decisions, with the Fed's blank check - which may have to deal with the backlash of its pursuit of QE, in contradiction with its concern that people are reaching for yields a very scary way (needless to mention that everybody carefully avoids using the term bubble...).

In a context where economic demand and inflation are bouncing back, many on Wall Street expect the Fed to reduce the size of its asset purchasing program, even though next rate hike isn't planned before 2023; however, the tightening conversation may start sometime this year; Jackson Hole central bankers' meeting, end of August, sounds like an option, if not sooner.

Athénée Mercury Certificate (International Stocks Long Only)	+4,87% YTD (30/04/2021)	+26,11% (from 27/03/2020 to 30/04/2021)

Performances	2021 At 11/05/2021	2021 at 30/04/2021	2020	2019
STOXX600	**+9,42%**	**+9,62%**	-4,04%	+23,16%
CAC	+12,90%	+12,93%	-7,20%	+27,86%
SMI (CHF)	+2,67%	+2,98%	+0,82%	+25,95%
S&P500 $	+10,54%	**+11,32%**	+16,26%	+28,88%
NASDAQ $	**+3,89%**	**+8,34%**	+43,64%	+35,23%
MSCI Emerging $	+2,93%	+4,78%	+15,84%	+15,42%
EUR / USD	-0,61%	-1,60%	+8,94%	-2,22%
Gold $	-3,29%	-6,81%	+25,12%	+18,31%
Rendement 10 ans USA	**1,62%**	**+1,626%**	0,91%	1,92%
Allocation Tracker Classique	**+3,35%**	**+2,50%**	**-0,83%**	**+7,05%**

But as observed beginning of March, the process of implementing a tighter policy is not exactly smooth, so the Fed's first steps towards less support could prove bumpy, for both the bond and equity markets.

Regarding this topic, we do not believe that Janet Yellen was unwise by indicating that rates might need to rise as economy recovers; **who else but the current US Treasury Secretary can test the market without discrediting or committing the US Central Bank**, and therefore without permanently disrupting stock markets' optimism?

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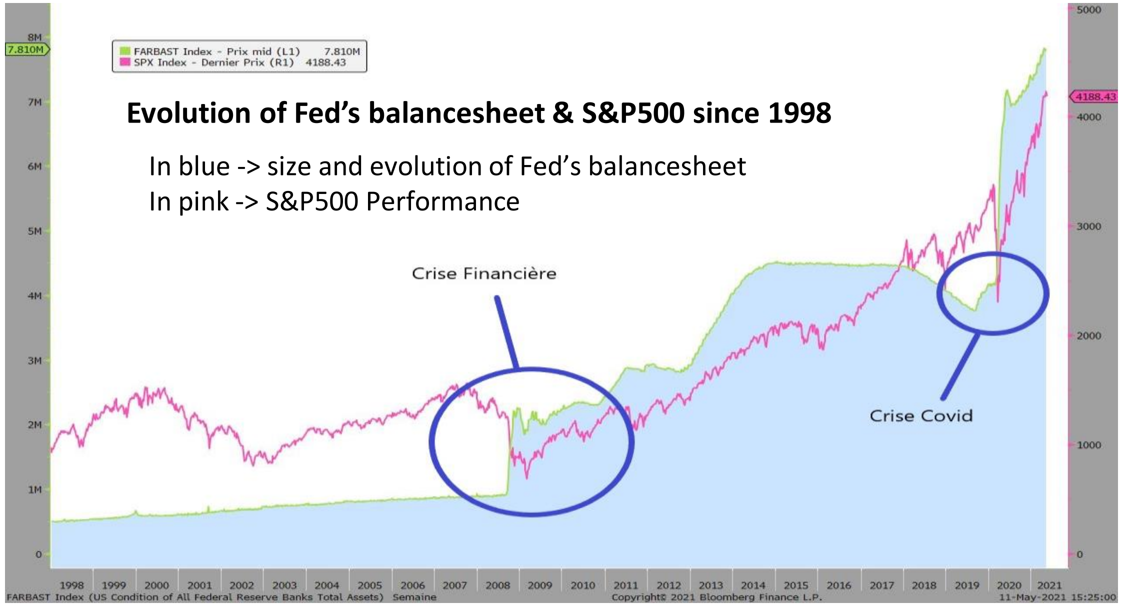
In fact, **the correlation between the Fed's balance sheet and the S&P500 performance is quite obvious**. Thus any word from the Fed towards reducing its monthly purchases could shake the stock market, pull bond yields higher and destabilize the myriad of marvelous fintech vehicles plebiscited by retail investors (and others!).

The Federal Reserve's balance sheet has been expanding since August 2019. Back then, the balance sheet stood at $3.76 trillion. By early May it was up to 7.8 trillion, more than three times levels reached during the financial crisis in 2008!!!

As the Fed increases its total assets, the stock market trades higher, almost regardless of the environment. This trend may well last if Powell continues to back away from rising yield fight, even if some other fundamental selling pressure may appear in the near future: for example, Biden's ambitious tax plan and related tax reforms, some companies' stratospheric valuations (techs and values), portfolio reallocations in a more complex interest rate environment (bye bye TINA?) - however all of this should be quite incidental, as it is just a consequence of the Fed's monetary policy.



Therefore, as long as the Central Bankers remain very accommodative (can they even consider anything else without creating a panic - remember December 2018?), **a "barbell" strategy combining cyclical stocks** - financials, industrials, commodities (including precious metals) - and **quality growth companies** seems a reasonable allocation for the medium term.

Nevertheless bargains are rare and costs of entry are particularly high - which is why we also recommend holding cash, in case the Fed stops worrying about the market's vulnerabilities - but simply decides to act!

SPAC : what's that ?

Special Purpose Acquisition Vehicle

It is a **company,** intended to be listed on the stock exchange, formed strictly to raise capital for the purpose of acquiring one or several companies within a given period (2 years). In some way, it has enabled Retail Investors to access the Private Equity universe, which was mainly the prerogative of large institutions

NFT ? A New Football Team?

Nope -> Non Fungible Token

A NFT is a **digital asset** issued by a blockchain. Each unit issued is unique and cannot be reproduced, actually it could be compared to a piece of art (unlike cryptocurrencies). But a NFT can be sold: as an example Jack Dorsey (founder of Twitter) put his first tweet - an NFT - on sale for $2.9 million!

MONTHLY BRIEFING APRIL – MAY 2021

Comments (Portfolios and Athénée Capital Model)

Re-inflation : re-stupid !

Last week in the US:

1. **Manufacturing ISM missed the consensus, but it appears that much of the decreases in production and new orders were driven by supply shortages**. Worth noticing that the prices paid component hit its highest level since 2008; higher costs may affect profit margins, unless manufacturers decide to pass costs on the consumer.

2. **Unemployment figures:** just 266,000 jobs were added in April, well below expectations (1 million), making it the biggest miss on record regarding employment statistics. Though confusing and puzzling, **there might be an explanation to these figures, according to some economists: labor shortage.** American companies say workers are increasingly hard to find, and the big jump in April wages alongside with a longer workweek (+a shift from part-time to full-time status), suggests that demand is not the issue - the supply side might be the cause (lack of skills or lack of motivation / difficulty in personal organization : let's not forget that the US unemployed workers receive an extra $300 per week in relief through September, while many are still struggling with childcare and health issues; plenty of US companies are paying less than unemployment**, so workers are actually gaining pricing power, as it is already seen in the transportation sector. The situation may also lead to political turmoil** with some states such as Arkansas, South Carolina or Montana willing to end these temporary relief aids).

In any case, inflation driven by commodities is a reality: the CRB foodstuff (from sugar, hogs, butter… to grains) is +15% YTD, the highest level since the summer of 2012. Grocery prices are at 7 year highs**. In the United States, pressure from wages seems to gain ground, raising the question of temporary inflation - or not, a headscratcher that the Fed will have to tackle sooner or later**. This is especially true given the real estate situation: the average price of a U.S. home jumped 17% in March from a year ago - the fastest pace on record but home prices don't figure as so into inflation gauges as housing is considered as an asset, not a good or a service consumed (*). So the official inflation numbers favored by the Fed do not exactly capture those stark increases as it focuses on core inflation, i.e. excluding food and energy, these components being known as volatile.

This situation could lead to a major disconnect between what official statistics say and what people and companies really feel - and therefore to social problems, unless a huge (inflationary) fiscal stimulus plan neutralizes this eventuality... In any case, it is time to rethink of the stocks' valuations in a more challenging rate environment and therefore consider some portfolio reallocation in order to adapt to a potential longlasting (even temporary) inflation world.

(*) Shelter costs are included in the CPI, with a lag of time of around 1 year compared to the housing market, so we should start to see upward pull show up for rents within the coming weeks / months.