FLEURUS INVESTMENT ADVISORY

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Overview

Equities rallied globally yet again in July fueled by a combination of better-than-expected second quarter corporate earnings, an unprecedented general agreement among European nations with grants and low interest rate loans and a weakening USD.

S&P's 500 ended the month up **5.64%** on a total return basis. The Nasdaq Composite rose **6.85%,** while the Russell 2000 (Small US Caps) was up **2.77%.** Internationally, the broad EPAC BMI (developed economies) was up **4.54%** and the MSCI EM (emerging markets) a larger **8.91%.**

It is interesting to note how differentiated the performance of various US equity markets has been so far in 2020. The chart below Illustrates the staggering outperformance of the technology sector:

The Nasdaq Composite (orange line) is up **25%** this year as of July 31. The S&P's 500 is up **1.45%** (blue line) on the same basis and the Russell 2000 (green line) is down **-10.77%.** This rather differentiated performance illustrates how investors view the impact of the pandemic on various sectors (technology vs. the rest) and sub-sectors of the economy (small firms vs. large firms).

In July our client portfolios gained between **2.36%.**and **4.05%.** A portfolio consisting of 50% ACWI (World Equity Index ETF) and 50% AGG (US bond aggregate proxy) rose **3.25%**.

As of July 31, client portfolios stand between a negative **2.61%** and a positive **2.66%** yearly performance. This compares to a **.07%** performance for our benchmark and of **1.45%** for the S&P's 500, over the same period.

The equity allocation in our clients' portfolios ranges currently from 35% to 65%, depending on risk profiles and after the positive equity momentum of the past three months.

Market developments

The month started on a positive note with the US unemployment number for June dropping to 11.1% from 13.5% at the previous reading. It was followed, at the month mid-point, by better than expected corporate earnings from various sectors of the economy, in particular from financial companies and technology firms.

The unprecedented Eurozone agreement reached on July 21 added fuel to the positive market tone. For the first time in their history, Eurozone countries have agreed to assist each other financially with grants in order to respond to the economic devastation caused by the pandemic. Grants of up to €400 billion will be offered to the most affected nations among them (Italy, Spain) and low interest rate loans of another €400 billions to other nations for general economic support.

Also, noteworthy this month was the acceleration of the pandemic in Southern and Western US states that dampened sentiment somewhat and caused a weakening of the USD vs. other currencies. The USD went down 3.5% in July vs. the Euro. It started the month at $1.12/€ to finish it at $1.18/€. This is a steep move in the currency market that reflects in part the greater confidence that investors have in the ability of European nations to control the pandemic when compared to the US.

The chart below illustrates the sharp decline of the USD since the end of May (the line goes up as the USD drops):

At this stage, there is no reason to think that the move is over. I expect a further weakening of the USD going forward. On a relative basis, this should help our international holdings.

Tilts and Allocations

In late July I sold out of our technology ETF (QQQ) after it had advanced close to 17% since our purchase in early May. Technology shares have been on a tear since the pandemic hit and the performance differential with other sectors of the economy while partly explainable makes a correction in that sector more likely. In that context, I have decided to take some profits and reduce our equity risk in the process.

The chart below illustrates the widening gap between technology shares (orange line) and the rest of the market (S&P's 500-blue line).

I bought more AIQUF (Air Liquide), in lieu of our exposure to the French equity market as a whole. Air Liquide is an industrial company with a stellar economic record. They are handling the pandemic well, as a supplier of ventilators to the French government among other things. The shares have progressed about 25% since I started buying in early May.

DLR (Digital Realty Trust), the Reit that caters to technology companies continues to do well. I have used this investment as a substitute for XLRE, the all-encompassing Reit ETF. Since early May it has outperformed XLRE by about 10%.

Our only disappointment since we started the process of partially replacing our ETF holdings with single stock investments, remains SCHW (Schwab). The shares remain in the $33 range where we bought them in April.

As I indicated in previous newsletter, I am not concerned. This company is very well run and will outperform at some point in the future. The recent drop in interest rates has not helped them. Low interest rates reduce their ability to make money on customer balances, a significant component of their earnings. As the economy picks up, a concurrent firming up of interest rates should help them recover.

Conclusion

Last month I concluded this letter with the following comments: "there is today enough political and economic uncertainty to paralyze the smartest and most courageous investors among us. Yet, these conditions may also provide the best entry points. Striking the right balance will remain a great challenge over the next few months".

Conditions have not changed much since and the market registered another 5% advance. Liquidity remains elevated and likely to increase once Congress passes another stimulus legislation. Reducing risk in this environment, other than selectively as we did with QQQ when particular conditions warrant it, does not appear to be justified.

With Presidential Elections in less than 100 days and August a traditionally volatile month due to thin trading conditions, investors should ready themselves for a bumpy ride.

Thank you for your continued trust.

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