FLEURUS INVESTMENT ADVISORY

December 4, 2020

Overview

What a month November was!

The S&P's 500 rose **10.95%** on a total return basis. The Nasdaq Composite was up **11.91%** and the Russell 2000 (Small US Caps) rose even more, clocking a **13.82%** monthly performance. The removal of uncertainty associated with the US election, the mixed political signal it sent and, more importantly, the announcements by Pfizer and Moderna that they both had developed highly effective vaccines to fight the current pandemic, all contributed to pushing equities to new highs.

The divided government that the US election has led to appears to be well liked by equity investors. The absence of a significant chance for a complete reversal of the Trump tax cuts of 2017 and the increasing likelihood of new stimulative economic measures helped create a "risk-on" environment in November that was only accelerated with the positive news on the health front.

Internationally, the broad EPAC BMI (developed economies) was up **15.11%**, helped by a declining USD (see chart below). The MSCI EM (emerging markets) was up a lesser **9.25%.** The chart below is that of USDU, an ETF that I use as proxy for the performance of the USD vs. major currencies. This ETF is down **4.62%** since September 25. A declining USD generally bodes well for equities in general and international equities in particular.

In November, our client portfolios rose between **5.49%** and **8.71%.** Over the same period, a portfolio consisting of 50% ACWI (World Equity Index ETF) and 50% AGG (US bond aggregate proxy) rose **6.42%** As of November 30, the YTD performance of our client portfolios ranged from **3.44%** to **10.25%**. This compares to a **9.25%** performance for our benchmark and of **14.02%** for the S&P's 500, over the same period.

As a reminder, the equity allocation in our clients' portfolios ranges currently from 40% to 70%, depending on risk profiles

Market developments

The end of the Trump Presidency together with the likely control of the US Senate by the Republican Party boosted markets early in the month. The positive tone was reinforced, one week later, when Pfizer announced that they had developed a highly effective vaccine against Covid 19. Moderna followed suit one week later. The increased odds of a return to economic normalcy within six to eight months, pushed equities to new highs throughout the month.

Today's environment offers the rare and clear opportunity to see how a health crisis, and how well we respond to it, can affect the economy in general and markets in particular. At the end of the day, public policy matters. Let me illustrate this point further; this time using the connection between social and fiscal policies and the performance of equity markets. The chart below shows the share of the national income that has accrued to workers (broadly defined as anybody who gets paid a salary) since 1950. The rest of the national income goes to government and corporations.

The share of the national income going to the American workforce rose in the post-war era until the mid 1970's. It reached about 58% at its peak. Since then, almost fifty years on, it has mostly declined to reach a low of 52% in 2016. That decline corresponds almost perfectly with an increase in the share of national income attributed to corporations. Is it a happenstance that during this long period of time US equity markets performed extremely well, averaging annual growth rate of 10%? Of course, other factors were at play, such as the spectacular reduction of interest rates since the early 1980's and the advent of the information age.

Nevertheless, I find it difficult to argue that today's political divisions and social inequities are divorced from the persistent transfer of income (and resulting wealth) that has occurred over the past forty years. Perhaps we will now see interest in engaging in an honest and thorough re-assessment of our national economic and social priorities.

Tilts and Allocations

November was a very good month for equity investors. Clients' portfolios performed well, both in absolute and in relative terms. I had hinted last month that I might increase our allocation to equities in November, depending on the post-election investment climate. I did.

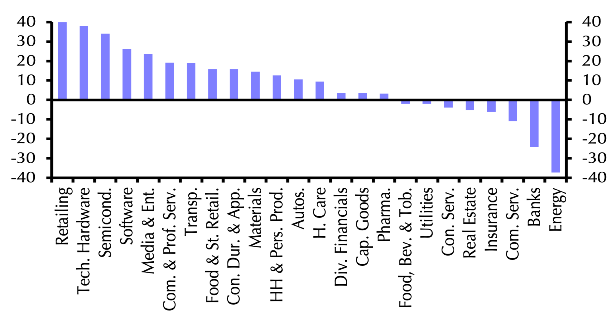
Most portfolios saw their equity allocations rise by 2% to 3%. I did it mostly by taking profits from specific investments (Schwab mainly) and by re-allocating the proceeds, and a bit more, to equities through SPY, the ETF of the S&Ps' 500.

Schwab (SCHW) has been an excellent investment for us since March and April when I initiated our first positions. I have now sold about 66% of our shares at an estimated average 50% profit. We remain marginally invested.

The continued decline of the USD pushed international equities up in November. Our investment in VWO (a broad-based emerging market ET with an Asian slant) gained close to 15% and I decided to reduce it and to re-invest the proceeds, and a bit more, into ILF, an emerging market ETF focused on Latin America (LATAM) equities. The rationale for this is fairly straightforward. LATAM equities are still 20% to 30% below their pre-Covid peak (unlike VWO) and remain far behind most other emerging market equities. Should the news on the vaccine front remain positive, the chances that ILF will deliver above average performance in the next few weeks are high.

In November, the rotation in favor of sectors initially most affected by the pandemic continued. These sectors have greatly benefitted from the vaccine announcements and bounced back more than 20% this past month. This trend will continue as long as the vaccine news remain good. I expect the sectorial laggards (illustrated in the chart below) to make up for their lost ground in relatively short order. Our investment in SPY, PRBLX and, to a lesser degree SCHW, should benefit from that general market re-positioning.

Chart 2: YTD Price Change In S&P 500 Industry Groups (%)



Sources: Refinitiv, Capital Economics

Conclusion

After the rapid rise of the past four weeks additional market gains are likely to depend on the timing and extent of the next wave of stimulus measures.

Before 2020 is over, emergency assistance is likely to be provided to small businesses, to the unemployed and to State and local governments. Not doing so would be economic malpractice. The chance that this assistance will be coming soon together with good news on the delivery and efficacy of the Covid 19 vaccines should work to foster a benign investment environment between now and the end of the year.

2020 may qualify as our collective and global "annus horribilis" and I can't wait to see it go, but not first without wishing you and your families a peaceful and joyful year-end.

Thank you for your continued trust.

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