FLEURUS INVESTMENT ADVISORY

July 3, 2020

Overview

Equities continued to rally in June, albeit at a slower pace. The S&P's 500 ended the month up **1.99%** on a total return basis. The Nasdaq Composite rose **6.07%,** while the Russell 2000 (Small US Caps) was up **3.53%.**

Internationally, the broad EPAC BMI (developed economies) was up **2.85%** and the MSCI EM (emerging markets) a larger **7.85%.** The general market rise was associated with the gradual re-opening of most economies around the world. In the US, the positive market move in June was not without volatility, as illustrated in the chart below.

The chart illustrates the performance of the S&P's 500 year-to-date (YTD). The part to the right of the vertical line represents its performance in June. It was up and down all month to finish nevertheless up. The market was beset by hopes of a smooth re-opening initially, interrupted by rioting in the streets as a result of the death of George Floyd and increasing signs of an accelerating Covid 19 contagion in Southern and Western states.

In June our client portfolios gained between **.75%.**and **2.41%.** A portfolio consisting of 50% ACWI (World Equity Index ETF) and 50% AGG (US bond aggregate proxy) rose **1.81%** during that period. As of June 30, client portfolios are down from **2.32%** to **5.50%** since January 1, 2020. This compares to a flat performance for our benchmark and of **-3.70%** 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 two months.

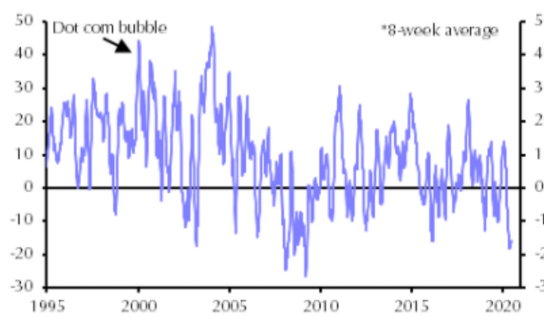
Market developments

June was quite a volatile month. I believe more of the same is in store for equity investors over the next few months and probably through the Presidential Election.

On the one hand, the US and other developing economies are gradually re-opening. This has generated some surprisingly positive economic news. We saw that at the end of June with a particularly strong US consumer confidence as well as above expectations existing home sales. Markets have risen 1% to 2% when these numbers were released. On the other hand, the increasing number of Covid 19 cases in the South and Western States has alarmed investors. On June 11, US equity markets dropped 6% when it first became clear than the pandemic was entering a new phase in the US.

In this volatile and uncertain investing environment, it is no surprise that many investors are cautious to the point of being bearish. This is illustrated in the chart below:

Chart 8: AAII Sentiment Survey Net Bullish/Bearish* (pp)



It is clear that market sentiment towards this recent rally is unconvinced, to say the least.

For market professionals, this happens to be a rather strong bullish signal. This is because it is associated with a large number of market participants sitting on above-average cash positions and waiting for an opportunity to buy. When the market does correct, many of those undecided investors finally swoop in to buy. In doing so, they limit any move to the downside. So the theory goes.

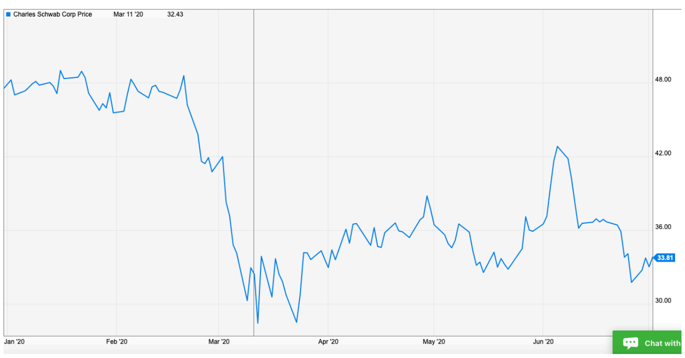
So far this year, the theory has proven correct. Since March 23, every market move to the downside has been erased quickly.

Tilts and Allocations

In June, I continued to buy DLR and exit our position in XLRE. DLR is a reit that caters to technology firms. It is a substitute for the all-encompassing XLRE that I have previously used. Our purchase has proven positive. DLR is up about 10% since, while XLRE has remained flat in the interim.

I have been less happy so far with our purchase of SCHW (Charles Schwab and Co.). The stock rose 25% within two to three weeks of our purchase in late March (around $32/share), rising to $45 on an intra-day basis in early June before returning to the low $30's in mid-June, in sympathy with the rest of the banking and brokerage sectors. My conviction about them remains. I will try to be a little nimbler the next time they get to the $45 -$47 range. This could take a few weeks or months. We shall see.

Below is a chart for SCHW over this tumultuous period. The vertical line marks our average entry point.



SCHW lost 6% in June. This explains why our good performance that month failed to become a great one.

As I have indicated before, the move from ETFs and index investing to stocks, even when limited as we practice it, will bring about more volatility to our portfolios. I expect this to come with higher performance between now and year-end.

Concluding Remarks

Until we find a permanent solution to this pandemic, the volatility of the equity markets will remain high and with it, investors' anxieties. This should provide opportunities. It should also offer many occasions to stumble. Errors will be easily made in the fluctuating environment we will find ourselves between now and then.

The Federal Reserve and Congress have so far, respectively, flooded the market with liquidity and prevented a collapse of consumption in the US. However, the risks that this unprecedented action may beget could be significant enough to alter the investment landscape for a generation.

Will the high level of corporate and governmental debt created to fund the rescue of the economy become unmanageable? What if inflation rears its head again? Some sectors of the economy that have benefitted from the pandemic due to the scarcity of labor have been able to increase prices well above the 1%-2% annual range that we have become accustomed to. Will the trend in these sectors assert themselves and spread to the general economy? As of now, there are too many moving parts to this story for us to discern its ending.

In this context, vigilance must remain high. And yet, the caution that goes with this higher vigilance must always be tempered by the knowledge that markets and economic conditions eventually recover and improve. When they do, one needs to be invested in order to benefit. Staying on the sidelines for extended periods of time is not a good investing option. History has shown it time and again.

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.

Thank you for your continued trust.

Jeff de Valdivia, CFA, CFP
Fleurus Investment Advisory, LLC
www.fleurus-ia.com
(203) 919-4980