FLEURUS INVESTMENT ADVISORY

June 4, 2021

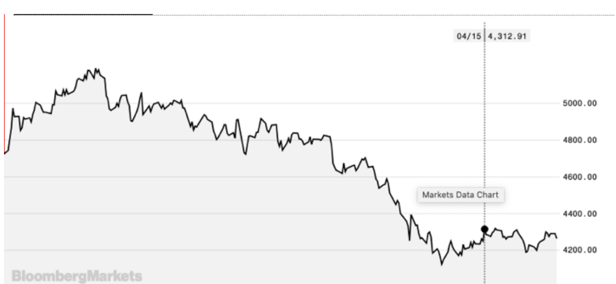
Overview

In May, US equities progressed unequally, depending on sectors. The S&P's 500 was up **.70%** on a total return basis. But the Nasdaq Composite was down **1.44%** while the Russel 2000 inched up a mere **.21%.** The rotation that has favored "value" and "traditional economy" stocks continued at the expense of the tech sector.

Internationally, a declining USD helped most countries and regions outperform their US brethrens. The EPAC BMI (developed economies) was up **2.72%** and the MSCI EM (emerging markets) **2.32%.** Frontier markets did even better with the MSCI Frontier 100 up **3.78%**.

Fixed income markets were generally calm, with little action to report. Most sectors progressed a bit. US Corporate bonds were up **.77%** while the Bloomberg High Yield index rose **.30%** and the S&Ps' municipal bond index **.39%.**

Here is a chart of the performance of the US long term bond sector since the beginning of the year. When the line drops, interest rates rise and inversely. Note how the line dropped from early in the year (left of the chart) to late March (lowest point on the line). During that period of time, interest rates rose sharply. Not unexpectedly, this period of time corresponded with a particularly volatile time for US equities.



Since mid-April (vertical line), long-term interest rates have been relatively stable as illustrated by an almost flat line to the right of the vertical line on the graph above. This explains in good part the positive performance of US equities since.

In May, the performance of our clients' portfolios hovered between **.56%** and **1.34%.** Over the same period, a portfolio consisting of 50% ACWI (World Equity Index ETF) and 50% AGG (US bond aggregate proxy) rose **.84%**. Year-To-Date (YTD), our clients' portfolios are up from **4.28%** to **6.07%.** Our benchmark stands at **4.24%**. The equity allocation in our clients' portfolio ranges currently from 40% to 70%, depending on risk profiles

Market developments

In May, US equity markets moved in unison with the "inflation" narrative. When fears of sustained inflationary pressures prevailed, particularly during the first half of the month, equities treaded water or dropped. When those fears were perceived as more transitory in nature, equities stabilized and went up. This is how we finished the month.

Inflation is going up. There is no doubt about it. The table below, from the Federal Reserve (Fed), is clear enough.

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2011	0.3	0.3	0.5	0.5	0.3	0.0	0.3	0.3	0.2	0.1	0.2	0.0
2012	0.3	0.2	0.2	0.2	-0.2	-0.1	0.0	0.6	0.5	0.3	-0.2	0.0
2013	0.2	0.5	-0.3	-0.2	0.0	0.2	0.2	0.2	0.0	0.1	0.2	0.3
2014	0.2	0.1	0.2	0.2	0.2	0.1	0.1	0.0	0.0	0.0	-0.2	-0.3
2015	-0.6	0.3	0.3	0.1	0.3	0.3	0.2	0.0	-0.2	0.1	0.1	-0.1
2016	0.0	-0.1	0.3	0.4	0.2	0.3	-0.1	0.2	0.3	0.2	0.1	0.3
2017	0.4	0.1	0.0	0.2	-0.1	0.1	0.0	0.4	0.5	0.0	0.3	0.1
2018	0.4	0.2	0.1	0.3	0.2	0.1	0.1	0.2	0.2	0.3	0.0	-0.1
2019	0.0	0.2	0.5	0.5	0.0	0.0	0.2	0.1	0.2	0.3	0.2	0.1
2020	0.2	0.1	-0.3	-0.7	-0.1	0.5	0.5	0.4	0.2	0.1	0.2	0.2
2021	0.3	0.4	0.6	0.8								

Over the past twelve months, the Consumer Price Index (CPI) is up 4.2%, on an annualized basis. If we strip away its most volatile components (energy and food) the annual rate drops to 3%. This is still significantly higher than the 1.2%-2.2% range that we have grown accustomed to over the past ten years. How should we interpret this development?

I tend to agree with the voices at the Fed and at the US Treasury when they say that the current price pressures result from a return to normal of the US economy and not from a more permanent change in expectations. For now, investors seem to agree. As illustrated below:

The vertical line marks the release of the last CPI data, on May 12. The forward move of the S&Ps' 500 from that point on indicates that the much stronger than expected CPI data (.8%) did not spook investors. On the contrary, it seems that the data validated the Fed's view, or that investors chose to believe it.

Tilts and Allocations

Two months ago, I indicated that I would soon divest from our relatively small position in ILF, the ETF that gives us our Latin American equity exposure. I am glad that I took my time. I started selling only recently and after ILF moved up substantially (about 8% in May). I reduced our ILF investments in half at about $30, for a gain of about 10% from our November purchase. I have kept the rest for now. My intention is to fully exit this investment when/if it reaches the $33-$34 range (the high reached just before the pandemic, in early 2020).

To give some perspective, here is the chart for ILF since the beginning of 2020.

Elsewhere in our portfolio, I increased our positions in EWJ, the ETF for Japanese equities at about $65/share. Japanese equities have suffered recently as a resumption of Covid cases there has dampened investors' appetite for them. On a YTD basis, Japanese equities have underperformed significantly when compared to their European or US counterparts. I would be surprised if this situation were not reversed in a failry short order. So far, the additional investment has proven beneficial. EWJ is trading at $69 as of this writing.

Finally, for those clients who have given me a specific nod of approval, I started buying a cryptocurrency ETF (GBTC) after it experienced a severe correction.

This is a highly speculative sector of the investment landscape and I sized our investment in GBTC accordingly.

Conclusion

There is quite a bit of speculation going on in particular corners of the market. Cryptocurrencies come to mind, although the fall since mid-April has been dizzying. Yesterday, AMC shares went down 40% after going up 95% the previous day. This comes after Gameshop experienced the same price action, earlier in the year.

It looks as if many people have decided to play with their money. Not invest it, just play with it: in the hope of making a quick return. This usually ends up poorly for the perpetrators although one hears only of those making a ton of money. The losers do not advertise their prowess and tend to be much, much more numerous…

This kind of speculative frenzy should not affect markets as a whole as long as it is kept to relatively small sectors, as is the case for now. It is nevertheless worth remaining alert. These investing behaviors, should they spread a little more, could announce more serious trouble.

Overall, this market remains investor-friendly for now. It just demands more selectivity and investment discipline than usual.

Thank you for your continued trust.

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