FLEURUS INVESTMENT ADVISORY

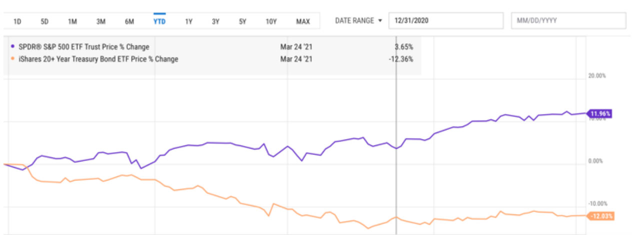
May 4, 2021

Overview

April was a blockbuster month for equities worldwide and particularly in the US as further signs of economic rebound combined with stable interest rates and a good start to the corporate first quarter earnings season encouraged investors to commit more. The S&P's 500 rose a whopping **5.34%** on a total return basis. The Nasdaq Composite was up **5.43%**. The Russell 2000 (Small US Caps) was up a more modest **2.10%.**

Internationally, investors' enthusiasm was more contained with the rate of vaccination accelerating but well behind that of the US and an eventual re-opening of economies pushed farther into the future. The EPAC BMI (developed economies) was up **3.02%** and the MSCI EM (emerging markets) up **2.49%.** The USD was down about **1.50%** against major currencies, giving in the process a lift to commodity prices (oil was up 6.4%).

A good reason for the sharp equity performance in April can be attributed to the stabilization of the interest rate environment since the latter part of March. The chart below illustrates the performance of SPY (S&P's 500 ETF- purple line) vs that of TLT (US Long bond ETF-orange line).



From March 24 through the end of April (to the right of the vertical line) SPY rose close to 8.25%. Meanwhile, TLT remained essentially stable. Note how the section to the left of the vertical line tells a very different story: As TLT was deteriorating by a little over 12% from January 1 to March 24, SPY progressed "only" 3.65%, in spite of clear sign of economic recovery and a rapid progression of vaccinations in the US. Interest rates do matter. The speed at which they move up or down affects equities. This is an important parameter to keep in mind. Always.

In April, the performance of our clients' portfolios hovered between **2.19%** and **3.14%.** Over the same period, a portfolio consisting of 50% ACWI (World Equity Index ETF) and 50% AGG (US bond aggregate proxy) rose **2.49%.** Year-To-Date (YTD), clients' portfolios are up from **3.09%** to **6.01%.** Our benchmark stands at **3.36%** on a YTD basis. The equity allocation in our clients' portfolio ranges currently from 40% to 70%, depending on risk profiles.

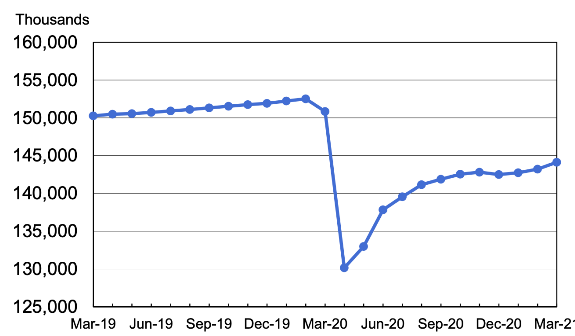
Market developments

Strong US economic data, throughout the month of April, together with stabilizing interest rates contributed to the powerful performance of equity markets.

It all started on April 2 with an improving unemployment picture. Non-farm payrolls for the month of March rose by a solid 915,000, a much larger number than expected (most economists expected a gain of 615,000). This contributed to the unemployment number dipping to 6%.

Below is a chart that captures well the effect of the pandemic on total US employment and the speed of the improvement since the low, in April 2020. The scale on the left shows total employment in the US at about 152 million, just before the beginning of 2020, precipitously dropping to 130 million. Fortunately, we are now back to total employment of about 145 million. As importantly, the rate at which jobs are being created is accelerating. If this acceleration is confirmed for the month of May (release in early June), we could be in for a very, very strong recovery indeed.

Chart 2. Nonfarm payroll employment, seasonally adjusted, March 2019 – March 2021



Other economic statistics point in the same direction. On April 15, total retail sales for the month of March were up 9% from February and 27% from one year ago (the twelve months nadir), reflecting a willingness of the US consumer to shop, after hibernating over the past twelve months. Consumer confidence statistics, released on April 27, confirmed the positive mood jumping from 109 at the end of March to 122 at the end of April. The US consumer is doing her best to prop up the economy. That is encouraging. There is little reason to think that this powerful trend will stop anytime soon.

Equity markets had hoped for and anticipated this rebound. They have now responded accordingly with the S&P's 500 up 11.84% since December 31, 2020 (on a total return basis).

Tilts and Allocations

During April, I added to our US equity positions. Specifically, I bought the stock of a pipeline company (Kinder Morgan-KMI).

The economic rebound in the US and worldwide is gathering momentum and investing in an energy transportation company that pays high dividends and remains, from an historical point of view, relatively inexpensive, looked like a sensible move (note that I did not allocate KMI to those accounts that have requested that I avoid investing in the oil and related energy sectors).

Here is a chart of KMI. The vertical line marks our entry point.

KMI has not yet recovered from its deep dive last year, unlike a majority of US stocks. I think it is just a matter of (short) time before it does. I will likely exit this investment when/if it reaches its previous pre-pandemic high of about $22. The stock trades at a little over $17 currently.

In the fixed income part of our portfolios, I reduced our investments in AGG in favor of BSV.

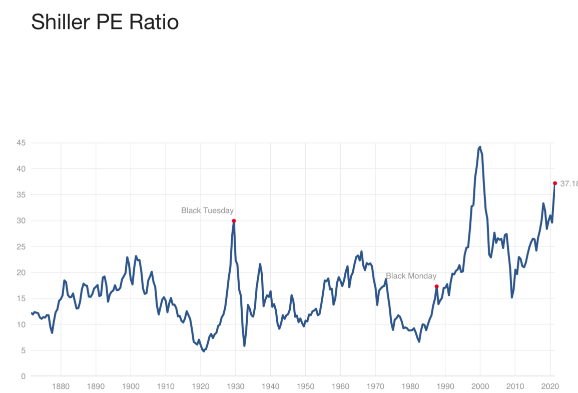
AGG is an ETF that tracks the performance of the totality of the US fixed income market. As such, it has about a 20% exposure to long bonds, those with the most sensitivity to interest rates changes. BSV, on the other hand, has a much shorter duration (about 2 to 3 years) and is consequently less sensitive to movements in interest rates.

While interest rates have remained relatively stable over the past six weeks, I do not think that this is likely to continue. We could see the yield on the US 10-year note rising from about 1.70% currently to possibly 2.50% by the end of the year. While this is, historically speaking, not a momentous event in itself it will cause some damage to portfolios. In this scenario, and all things equal otherwise, BSV would do better than AGG.

Conclusion

The US economy is rapidly emerging from its Covid-induced hibernation. GDP growth for the first quarter of 2021 was 6.4%, higher than expected by .3%. The US consumer is cash flush. Corporations are modestly levered. The Biden Administration is ready to spur the economy further with three to four trillion in infrastructure and related investments. In this environment, it is difficult to justify a defensive investment posture.

On the other hand, equity valuations are close to the pre-bubble levels of March 2000. Below is the chart of the Shiller CAPE (Cyclically Adjusted Price Earnings) ratio.



Some prudence is warranted here.

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