FLEURUS INVESTMENT ADVISORY

**November 5, 2021**

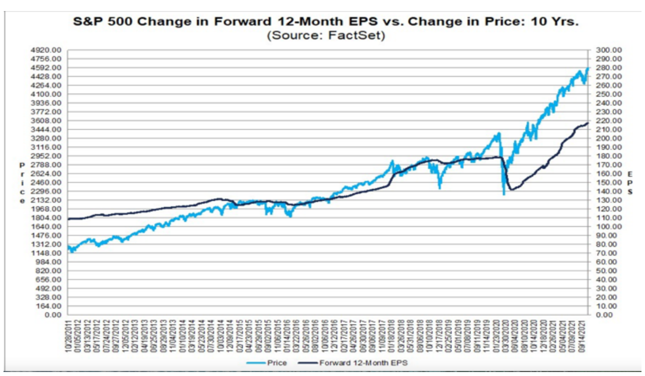
## Overview

Equity markets bounced back up with a vengeance in October. The S&Ps' 500 was up **7.01%**, the Nasdaq Composite up **7.29%** and the Russell 2000 (small caps) **5.95%.** Internationally, the performance of the EPAC BMI index (developed economies) paled in comparison with a mediocre **1.91%.** The MSCI EM (emerging markets) was worse with a **.99%** monthly performance.

The triggers for the spectacular US equity market performance were first, the stop gap measure agreed in Congress on the debt ceiling issue on October 8 and second, the following week, the beginning of a particularly good corporate earnings season.

As of October 29, and with 56% of S&P's 500 companies reporting, 82% of them had positive earnings surprises and 75% of them positive revenue surprises.

The chart below illustrates the spectacular earnings progression over the past ten years (dark line) and its direct effect on the S&P's 500 index.



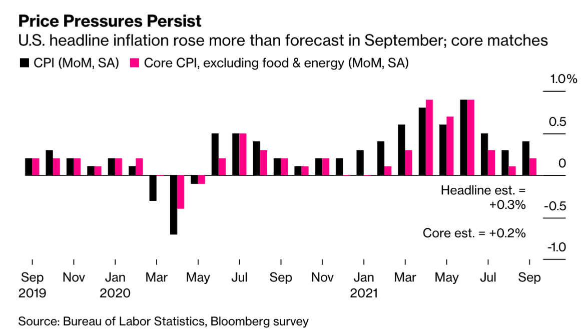

Meanwhile, US fixed income markets were mixed with the Long Bond (TLT) up **1.85%** while investment grade intermediate corporate bonds went down a bit (**.54%**) and the high yield sector was flat to negative with the Bloomberg US high yield index down **.23%**.

Last month, the performance of our clients' portfolios hovered between **2.05%** and **4.37%.** Over the same period, a portfolio consisting of 50% ACWI and 50% AGG rose **2.69%**. Year-To-Date, clients' portfolios are up from **7.01%** to **11.16%,** net of fees. Our benchmark stands at **7.62%** over the same period.

The equity allocation in our clients' portfolios ranges currently from 40% to 70%, depending on risk profiles.

## Market developments

Inflation was on the mind of most investors in the first few days of October as the latest economic data releases confirmed its upward trend. The September unemployment numbers showed that hourly wages were up a solid 4.5%, year-over-year. As well, a faster CPI number for September of .4% vs. an expected .3% kept inflation ever-present in investors' mind. The chart below illustrates the situation on this front:




The big discussion right now between economic pundits is whether this bout of rising inflation is "transitory", as the Federal Reserve hopes, or not. Some of them are arguing that the Fed is "behind the curve" and has failed to restrain soon enough the flow of liquidity in the economy unleashed by its huge bond buying program. That, in turn, has fed inflationary forces that are likely to be difficult to contain.

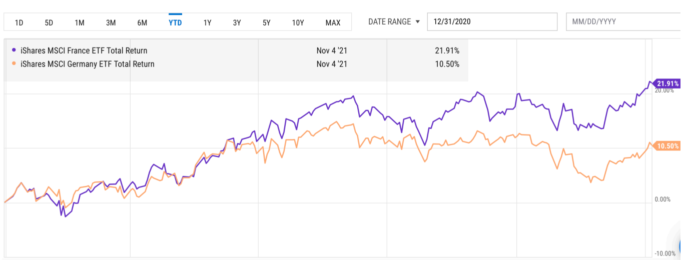
As far as I can tell, it is too early to decide whether the Federal Reserve has played its hand too long or has been too accommodative for too long. After all, the pandemic was a huge and totally unexpected development with considerable economic consequences: a "Black Swan" event. In response, the Fed's actions have been without precedent, forceful and quite successful overall. They have prevented massive unemployment and economic dislocation. We have all benefitted from that response.

The Fed's activities, while largely applauded in the context of the pandemic, are now being scrutinized more closely as inflation remains high and......the battle over the 2022 mid-term elections starts.

## Tilts and Allocations

International developed equity markets have disappointed in 2021, when compared to the performance of the US equity markets. This is not a new trend, but I expected the recovery from the pandemic in Europe and Japan to take place faster than it has. Most European equity markets have lagged. Our German equity investment (EWG) is up 8.10% vs. 24.05% for the S&P's 500. Japan has fared worse with our investment (EWJ) up only 1.99% in 2021, and as of October 31. The only exception has been France. Our investment there (EWQ) is up 19.5%. Our other investment in France, Air Liquide, is up finally about 12% in 2021. It has more to contribute, so I am staying fully invested there, even though it has disappointed a bit, on a relative basis.  The rise of the USD against a basket of major currencies, by about 5% so far in 2021, has not helped.

With this in mind, in October I decided to switch investments between countries rather than to reduce our overall international exposure. Specifically, I reduced our EWG investments in favor of EWQ, in equal measure. The performance spread between the two countries has been significant for a while, and in favor of France, as shown below:




Germany is not doing as well as France overall as a result of its high dependence on exports and ties to China, but perhaps also as political uncertainty has risen, following the soon-to-come-but-not-yet-effected retirement of Angela Merkel as Chancellor.

Elsewhere in our portfolios, DLR (our Reit investment) recovered sharply in October (up **9.5%**) from its losses in September (-**10%**). As for GBTC, our crypto investment, it jumped a whooping **46%**.

Even a small dose of that will do some good to a portfolio!

## Conclusion

Looking ahead, the likely passage of the two bills being debated in Congress should provide support to markets when they are finally passed. Large investments in infrastructure will accelerate or sustain the current rebound. As for investments in early education and family support, they should eventually translate into higher long-term productivity, in addition to providing the immediate relief that so many American families need.

Between now and year-end, I expect markets to rise mildly or, at worst, to move sideways, capping an eventful but, in the end, good year for investors.

Thank you for your continued trust.

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