FLEURUS INVESTMENT ADVISORY

November 4, 2020

Overview

The S&P's 500 ended the month of October down **2.66%** on a total return basis. The Nasdaq Composite dropped **2.26%** while the Russell 2000 (Small US Caps) was down a milder **.64%.** Internationally, the broad EPAC BMI (developed economies) was down **3.69%** while the MSCI EM (emerging markets) countered the negative trend and delivered a positive **2.06**% return in October.

Equity markets progressed through the middle of the month but reversed themselves as signs of a second Covid 19 wave became undeniable. Equity markets in Europe were particularly affected. The US followed suit by the end of the month, with the S&Ps' 500 declining close to 6% in the last days of the month.

An under-reported story in this Covid-US election dominated period is the gradual but meaningful rise in long-term interest rates over the past three months, as illustrated in the chart of TLT (Long US bond ETF).

TLT has lost 7.69% since late July. Fears of inflation, at a two to three -years horizon, are starting to materialize as a result of the abysmal deficits generated by our response to the Covid 19 epidemic and its devastating economic aftermath. It will be worth keeping an eye on this over the coming months.

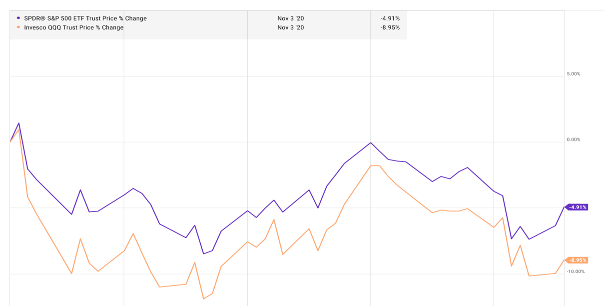
In October, our client portfolios dropped between **.72%** and **1.75%.** Over the same period, a portfolio consisting of 50% ACWI (World Equity Index ETF) and 50% AGG (US bond aggregate proxy) slumped **1.40%**. As of October 31, the YTD performance of our client portfolios ranged from **-2.25%** to **3.18%**. This compares to a **2.77%** performance for our benchmark and of **2.75%** for the S&P's 500, over the same period.

As a reminder, the equity allocation in our clients' portfolios ranges currently from 35% to 65%, depending on risk profiles.

Market developments

On and off negotiations on a possible third economic stimulus package between Secretary of the Treasury Mnuchin and the Speaker of the US house of representatives, Nancy Pelosi, kept equity investors on edge throughout most of the month. Each side tried its very best to avoid being blamed for a failure to agree on a set of economic measures before the crucial Presidential Election. They did a pretty good job at arriving at nothing. This should be corrected shortly after the electoral results are in. The size of the package will vary with whoever wins. It is expected to be larger with a Biden victory and a democratic senate majority than if President Trump is re-elected and/or if the Senate remains republican-dominated.

As the electoral drama unfolds, US equity investors continue their gradual rotation out of technology stocks as illustrated in the graph below.



QQQ (the tech dominated ETF-yellow line) is down close to 9% since early September. During the same period, SPY (S&P's 500 ETF-purple line) was down close to 5%. In the early days of November, the trend seems unchanged with the Nasdaq 100 lagging both the S&P's 500 and the Dow Jones Industrial.

Looking ahead, equity investors should expect Congress to agree on a stimulus package at some point in the next three months. The speed and size of this package will likely vary with the outcome of the election, including whether its results are accepted without too much resistance. The odds for peaceful post-election days do not appear good as of this writing (mid-day on November 3), in light of the President's announcement that he will contest the election if he is not re-elected.

Investors should prepare for a few days or weeks of market volatility.

Tilts and Allocations

Market gyrations in October gave us opportunities.

Schwab stock price went up 17% during the month and we took advantage of this sharp market move to reduce our position. If you recall, I added to our investment in SCHW shares at a price of $34 in mid-September. I sold those additional shares at a little over $40. We remain significantly invested in SCHW shares as they continue their progression, hovering today around $43.50. The vertical line below marks our last purchase of Schwab shares.

Covid 19 has brought a second wave of lockdowns in Europe and the stock markets in France and Germany have suffered accordingly. Our investment in Air Liquide ADRs, the French industrial gas company, did not escape. It went down a sharp 10% in October. I took advantage of this development and added to our position. I am happy to report that it is up 6% since. This is a solid investment that will turn into a long-term winner for us over the next few months as the economies of Europe eventually recover.

Also, in the waning days of October I added to our position in DLR, the data center reit that caters to the technology sector. Its share declined in sympathy with the overall rotation out of the technology space. I added to our position at $143/share. It has since bounced back to $146.

Overall, I have not meaningfully changed our equity allocations and kept them at the low-end of our "typical" exposure. Rather, I took advantage of developing situations in specific sectors (reit-DLR), geographies (Europe-Air Liquide) or companies (Schwab).

Depending on how the post-election period unfolds, I may change our posture and add to our equity allocation. I stand ready to do so rapidly should developments justify it.

Conclusion

If you recall my last letter, I indicated then that "as per Goldman Sachs (GS), a sitting president is re-elected 88% of the time when the performance of the US equity markets is positive over the three months prior to the election. Let's say from August 1 to October 31 for simplicity".

With this as background, below is the chart of the performance of the S&P's 500 from July 31 through October 31:

The index (level) was down **-.04%** over that time. It was up **.37%** on a total return basis…

Thank you for your continued trust.

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