FLEURUS INVESTMENT ADVISORY

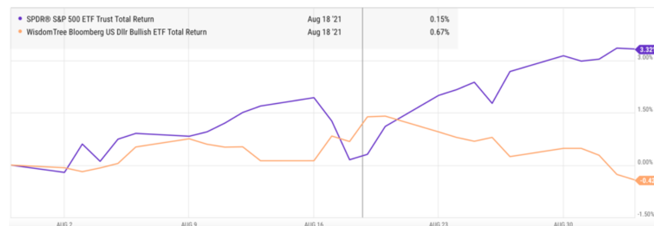
**September 4, 2021**

## Overview

August was yet another spectacular month for equities worldwide. The S&P's 500 went up **3.04%** on a total return basis. The Nasdaq Composite was up **4.08%** and the Russell 2000 (small caps) **2.24%.** Internationally, the EPAC BMI index was up **1.55%** while the MSCI EM (emerging markets) rose **2.62%** and frontier markets registered a positive performance of **3.30%.** US fixed income markets went slightly down (from **-.20%** to **-.35%**), with the exception of the high yield sector **(+.51%**).

Several factors contributed to the positive equity market environment: 1) Strong corporate earnings that confirmed the trend of the previous month, 2) Continued signs of potent economic growth with a spectacular unemployment number early in the month and, 3) The Fed Chairman's dovish words at the Jackson Hole monetary policy-makers annual get-together.

The chart below illustrates the performances of SPY (S&Ps' 500 ETF in purple) and of USDU, a US Dollar proxy (in orange), during the month. The vertical line marks the height of investors' concerns over the US troops pullout from Afghanistan.




After rising by close to 1.50% in the first half of the month as the situation in Afghanistan was becoming particularly uncertain, USDU reversed itself to finish the month flat. At the same time, the performance of SPY that had been flat overall until then turned positive as investors evaluated that the pullout, while messy, should not have long-lasting economic consequences. The chart is an interesting illustration of how the USD and US equities markets can sometimes, if not often, diverge. It also informs the relative underperformance of non-US equities in August.

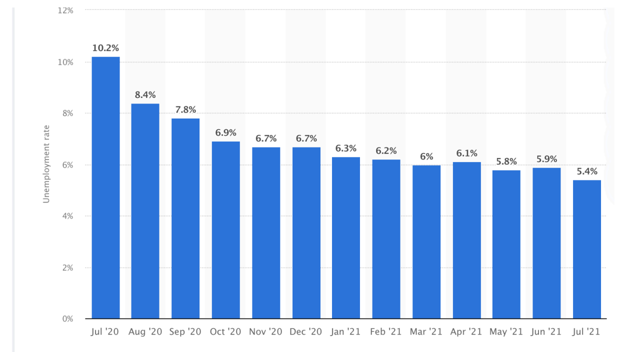
In August, the performance of our clients' portfolios hovered between **1.10%** and **2.18%.** Over the same period, a portfolio consisting of 50% ACWI and 50% AGG rose **.99%**. Year-To-Date, clients' portfolios are up from **6.80%** to **10.47%,** net of fees. Our benchmark stands at **7.54%** over the same period.

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

## Market developments

The month started with strong unemployment statistics. The US Labor Department reported on August 6 that the US workforce had filled more than one million new jobs in July, significantly exceeding market expectations.

This spectacular performance brought the unemployment rate to 5.4%. See the chart below for an illustration of the labor market improvement over the past twelve months.




This robust confirmation that the US economic recovery was well entrenched caused equity markets to move up close to 2%, in the first part of the month, before giving everything up as the Afghan situation and the Chinese government spooked investors. All gains were lost in a few days.

At that point, the sustained economic interventionism of China's autocrats, particularly with respect to the tech. sector, combined with the Afghan situation, caused all equity markets to lose ground and more so the non-US markets.

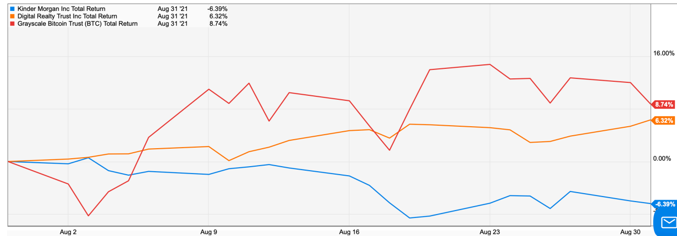
What could have potentially become a market correction had it continued, was avoided as the Biden Administration showed signs of getting the situation in Afghanistan under better control and, in the waning days of the month, Jerome Powell assuaged market fears in his Jackson Hole address.

The Fed Chairman indicated that the exceptional bond-buying program set in place in the early days of the pandemic would probably be reduced in size over the Fall, but only as signs of continued labor and general economic recovery endured. He also was subtle enough to de-couple the reduction of this program with the potential increase of the Fed's reference interest rate gauge (the Fed Fund Rate).

Equity markets loved it. Here and elsewhere in the world.

## Tilts and Allocations

The chart below illustrates the performance of three of our investments. The red line is that of GBTC (the crypto currency trust). The orange line reflects the performance of DLR (a real estate investment trust that caters to the technology sector). The blue line shows the performance of KMI (the natural gas pipeline company).




In August, GBTC was up **8.74%**, DLR was up **6.32%** and KMI went down **6.39%** (KMI). Over the two previous months, KMI is down cumulatively close to **9%**. As a result, I decided to marginally add to our positions.

KMI pays an annual dividend that is close to 7%, based on its current (low) stock price. I felt that we were not taking too much risk in adding to our position. My expectation is that we will end up with a 10%-20% net performance in the next few months as the economic recovery widens to encompass more fully the energy sector.

Other that for this investment action, I did not make any other moves in August. I keep a keen eye on ILF, the Latin American ETF that we are still invested in, waiting for a bounce to get rid of our positions. At current (high) levels of equity valuations, a correction, if it were to happen, would affect that type of investment particularly hard. In the current environment, I'd rather reduce risk at the margin, whenever possible.

That said, there are no objective reasons for reducing portfolio risks in a more significant way.

While I understand the unease that many investors feel, mixed with excitement at the performance of their portfolios (after all, the S&Ps' 500 is up over 20% YTD), there are no objective reasons to reduce equity exposures at this point. Our current allocation to equities hovers around 60% for a majority of portfolios. I feel comfortable with it for now.

## Conclusion

The month of September is, more often than not, a relatively negative month for US equity performance. Statistically speaking, we could therefore be in for a mediocre to poor performance in the next few weeks.

However, because market fundamentals remain good overall, this environment may provide us with the opportunity to buy undervalued securities. We shall see.

In the meantime, enjoy your Labor Day weekend!

Thank you for your continued trust.

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