FLEURUS INVESTMENT ADVISORY

September 4, 2020

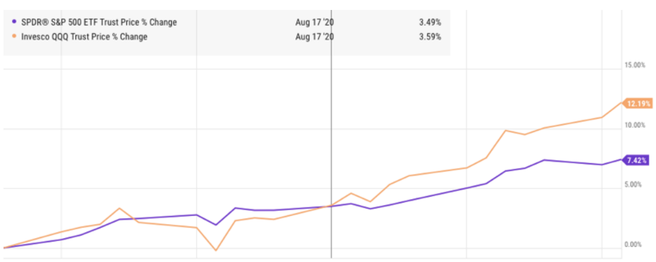
Overview

August was another high-performance month for equities in the US and around the world. A combination of ultra-loose monetary conditions globally and encouraging economic news propelled indices to all-time highs.

The S&P's 500 ended the month up **7.19%** on a total return basis. The Nasdaq Composite rose **9.70%,** while the Russell 2000 (Small US Caps) was up **5.63%.** Internationally, the broad EPAC BMI (developed economies) was up **5.29%** and the MSCI EM (emerging markets) a much smaller **2.21%.**

US equities rose slowly at the beginning of the month. They then accelerated after the release of better than expected consumer and housing statistics on August 14 and 17 respectively:

The chart below illustrates the performance of the S&Ps' 500 (SPY) and of the Nasdaq 100 (QQQ) in August.



Notice how the performance accelerates to the right of the vertical line, soon after the aforementioned statistics were released.

In August our client portfolios gained between **2.04%** and **4.13%.** Over the same period, a portfolio consisting of 50% ACWI (World Equity Index ETF) and 50% AGG (US bond aggregate proxy) rose **2.61%**.

As of August 31, client portfolios were all in positive territory, ranging from **.35%** to **5.22%**. This compares to a **5.80%** performance for our benchmark and of **9.74%** for the S&P's 500, over the same period.

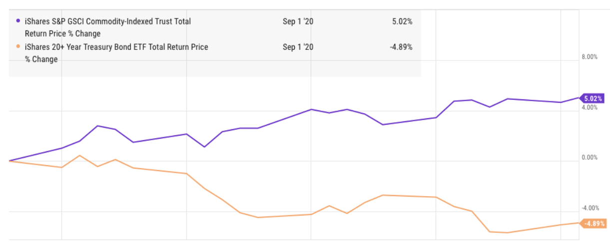
As a reminder, the equity allocation in our clients' portfolios ranges currently from 35% to 65%, depending on risk profiles.

Market developments

Economic data this month was generally supportive of the notion that the US economy is gradually coming out of the devastation caused by COVID 19.

Unemployment claims came in at below expectations, on August 6, giving the market its initial and positive tone. But it was strong housing sales for July, published on August 17, that propelled US equities sharply up. This statistic came in at twice the expected rate of growth.

Building on signs of a pick-up in economic activity in June and July, the latest statistics seem to confirm that the worst of the economic devastation is behind us. At least, equity investors seem to think so. This is confirmed by the divergence between the performance of commodities and the US long bond, illustrated in the chart below:



In August, the GSCI index, an all-encompassing commodity index rose 5.03% (blue line). At the same time, the US long bond was losing 4.89%. Both movements confirm that an economic pick-up is at hand. Or at least that investors believe so. There would be danger in betting against that.

All of this is developing in an environment of extremely loose monetary and fiscal policies.

The Federal Reserve is nowhere near tightening (raising interest rates) and has sent signals that such a development is unlikely before 2022. As for our elected officials, in spite of the poisonous environment, they are likely to agree on a last assistance program before the elections, injecting in the process billions of USD in the economy in the coming weeks. All of this makes a significant market correction unlikely, at least until the elections and probably beyond.

Tilts and Allocations

In late July, I replaced our exposure to the tech sector (QQQ) with investments in large cap and mid-cap US equity funds (BUFTX and PRBLX). This was a consequence of the outperformance of the tech sector since the beginning of the year that I deemed unsustainable and likely to be reversed or minimized at some point in the near future. If I am to be right on this point, it was not in August.

QQQ continued to outperform other equity ETFs. The tech sector went up 10% on average this past month and significantly overtook the larger market with the S&P's up "only" 7.20%. The dichotomy with the Small Cap sector is even more spectacular.

Below are the performances of three broad indices that tell the story of this pandemic-induced correction and rally:

Sectorial Indices/ETFs	1-Jan	23-Mar	31-Aug
QQQ (Nasdaq-Tech)	0.00%	-19.82%	41.07%
SPY (S&P's 500-Large Caps))	0.00%	-30.73%	9.55%
VTWO (Russell 200-Small Caps)	0.00%	-39.88%	-4.81%

While the equity rally since March 23 (the market bottom) has propelled all indices up, the tech sector has benefitted considerably more than any other. The differences in performances, as of August 31, were jaw-dropping. The Nasdaq (QQQ) is up 41% so far this year while the Small Cap sector is down about 5%! These kinds of inconsistencies generally do not endure. A market that is that bifurcated eventually corrects itself.

It is hard to contemplate a future where the tech sector eventually becomes the totality of the market and/or the economy. However, this is what investors seem to predict. I do not believe that we are there yet, hence my sale of QQQ. At some point a correction/rotation will take place and bring other indices back up (or Nasdaq down). The catalyst for that could be a truly significant development in our collective fight against Covid 19.

Elsewhere in our portfolio, SCHW went up 7% this past month, while AIQUF (Air Liquide) stagnated and DLR (REIT sector) was slightly down.

Overall, I did not make any significant changes in client portfolios.

Conclusion

August ended up being much less volatile a month than it has been historically. With presidential elections two months away and in an increasingly toxic political environment, this is unlikely to endure.

That said, investors have shown an incredible ability to discount (to almost zero) the political volatility of the moment. I am not sure whether this is complacency or insight. All I know is that, from a purely monetary and economic standpoint, reducing market exposure now would not be justified. Therefore, I intend to stay the course.

Thank you for your continued trust.

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