FLEURUS INVESTMENT ADVISORY

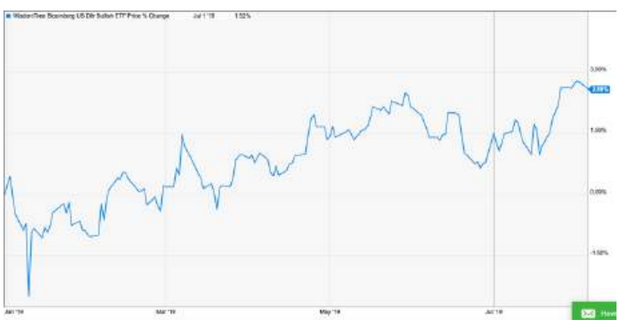
**August 6, 2019**

**Overview**

July saw US equity indices generate positive returns, once again. The S&P's 500 rose by 1.44%. The Nasdaq Composite added 2.15% and the Russell 2000 (US Small Caps) .58%.

Internationally, equities declined overall. This was mostly the result of Brexit-related fears in Europe and a rising USD. The S&P EPAC BMI (developed markets) declined 1.49% during the month of July while emerging markets shrunk by 1.22% (MSCI EM).

Below is a chart of USDU, an ETF that tracks the performance of the USD vs. a basket of currencies. The steady strengthening of the dollar since the beginning of the year (up 2.59% by this measure) and the acceleration in July ( to the right of the vertical bar) have generated headwinds for international equities.



US fixed income markets generated positive returns in anticipation of a likely reduction of the Fed funds rate on July 31. Corporate and high yield bonds were up about .50% respectively.

In July, our client portfolios hovered between -.14% and .43%. This compares to a monthly performance of .13% for a portfolio consisting of 50% ACWI (World Equity Index ETF) and 50% AGG (US bond aggregate proxy). On a Year-To-Date (YTD) basis, our portfolios are up from 10.02% to 14.59% (net of fees) vs. 11.23% for our benchmark.

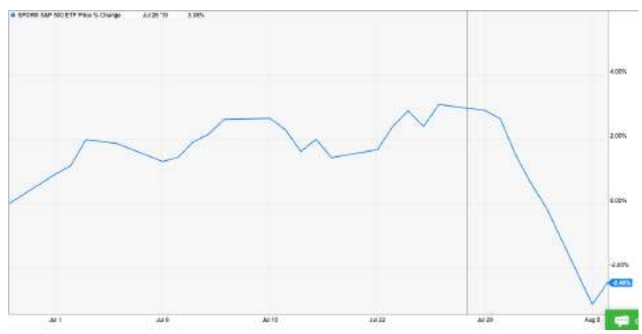
As a reminder, the equity allocation in our clients' portfolios ranges currently from 30% to 60%, depending on their risk profiles.

**Market developments**

July started with an unexpectedly strong job report for June. With 224,000 jobs created that month, the US economy showed continued resilience in spite of the threat to economic growth posed by the on-going trade conflict with China. As a result, equities remained stable over the first half of the month.

They started rising as second quarter corporate earnings began to flow around the 17th and showed to be slightly above expectations, offering another measure of support for equities here and globally and bringing equity indices to their zenith on July 26.

The chart below is that of SPY, the ETF that tracks the S&P's 500 index. The vertical bar marks July 26.



After that date, a combination of factors pushed equity markets down worldwide, including: 1) the nomination of Boris Johnson as UK Prime Minister. His combative rhetoric regarding a hard Brexit started unnerving markets, particularly in Europe, 2) the FED disappointed market participants by reducing its policy rate by "only" .25% and, most importantly, 3) the Trump Administration announced that it would impose additional tariffs on Chinese goods entering the US, should the current trade negotiations with China fail to progress measurably by September.

All of this is adding to a sense of unease that is sustained in part by concerns over relatively high equity valuations, a decidedly inverted yield curve and heightened geopolitical risk, from Iran to North Korea and now Kashmir.

**Tilts and Allocations**

I did not take any meaningful investment actions in July.

The positive economic news at the beginning of the month combined with relatively good second quarter earnings sustained equities until recently. Politics (in the UK/Europe and in the US in the form of trade negotiations with China) on the other hand have triggered the sell-off of the past few days. Timing investment decisions around such events is generally unwise and I have refrained from making any investment moves as a result.

Looking ahead, unpredictability around Brexit and the state of trade negotiations with China makes it more than likely that I will start reducing our overall exposure to equities in the coming weeks. I may accelerate the movement should market conditions deteriorate.

That being said, our overall equity allocation remains conservative and at the lower end of target allocations, based on each client's risk profile.

**Concluding remarks**

We are now in a period of the year when equities often underperform. This is the result in part of lower market liquidity that tends to exacerbate the impact of negative news, be they political or economic in nature.

As a result, over the next few weeks, investors should expect a higher than usual level of market volatility.

Thank you for your trust.

Jeff de Valdivia, CFA, CFP