ATHÉNÉE PATRIMOINE

MONTHLY BRIEFING SEPTEMBER 2020

Comments (Portfolios and Athénée Capital Model)

Doubt is not a pleasant condition, but certainty is absurd (Voltaire)

August just saw records after records, on US indexes (loaded with tech companies – which is not the case in Europe – this is why European indexes are lagging behind their US peers). It seems that negative real rates are the main reason explaining the levitation of the tech sector, alongside with hope for a vaccine, sooner rather than later (at least according to the news headlines).

The US 10 year real rate has dropped from -0.36% to -1.05% mid-August, its lowest level in 17 years, fostering the famous TINA: investors are convinced that stocks are the only asset class likely to perform, due to a very low rate environment which they believe to persist forever and central banks currently willing to avoid any major crash or another liquidity crisis, no matter what. **This is the kind of certainties that have fueled the craziness on a few tech companies like Apple, Salesforce, Zoom, Tesla** (euh Tesla … isn't it making and selling cars, with wheels and steering wheels, or maybe we missed something? Anyway, on the road to stratospheric valuations, Tesla is for sure a leading vehicle, digital or not!).

The only problem is that everybody appears to get the game of everlasting TINA – and that could be a sign that **the trade is ready to shift and may turn more sanguine within the coming weeks,** particularly after Jerome Powell's crystal clear message from Jackson Hole: the recovery in employment is the priority. The Fed will remain accommodative and adopt a more flexible approach to inflation. **This new monetary orientation might blow another bubble;** and it probably will end up in tears, as usually, the problem is when and why.

Athénée Capital Model 31.08.2020	**-4,27%**	**7,05%**	**990,89**
Monetary 3 monthes EU			-0,55%
Monetary 3 monthes CH			-0,74%
Monetary 3 monthes US			0,12%
Bonds 10 yr Germany			-0,40%
Bonds 10 yr Switzerland			-0,41%
Bonds 10 yr USA			0,71%
EUR USD	**6,89%**	-2,21%	1,1983
EUR CHF	**-0,57%**	-3,55%	1,0791
GOLD	**31,02%**	18,30%	1987,91
OIL (WTI)	**-29,45%**	34,46%	43,08

	Perf 2020	Perf 2019	Level
MSCI Monde en $	**5,34%**	27,67%	7278,44
Eurostoxx 50	**-12,62%**	24,78%	3272,51
SMI	**-4,53%**	25,95%	10135,56
CAC	**-17,24%**	26,37%	4947,22
DAX	**-2,29%**	25,48%	12945,38
Footsee	**-20,93%**	12,10%	5963,57
Dow Jones	**-0,38%**	22,34%	28430,05
SP500	**8,34%**	28,88%	3500,31
Nasdaq	**31,24%**	35,23%	11775,46
MSCI Emerging en $	**-1,18%**	15,42%	1101,50
Nikkei	**-2,19%**	18,20%	23138,07
Shanghai Composite	**11,26%**	22,30%	3393,96
(Indices Source Bloomberg au 31.07.020)			

Athénée Mercury Certificate (UE and US Stocks Long Only)	**+9,75% (from 27/03/2020 ato 31/08/2020)**

So what might cause the coming bubble to pop?

1. Against all odds, **a vaccine could weigh on the markets by sparking a selloff in bonds and rotation of tech shares** (benefiting from everyone working home) **towards cyclical stocks**, particularly with the new Fed monetary policy framework: strong employment would not be considered as a sign of incipient inflation and the Fed would not tighten rates because of it. That's good for economic sensitive stocks. The result could **turn into a steepening of the yield curve**, in the absence of yield curve control, causing multiples to contract – yet another reason to get rid of techs and buy value. No need to say that **such a reflationary policy, combined with abyssal deficits, is likely to pressure the greenback.**

2. In spite of the torrents of liquidity flowing out of central banks, **current valuations could still be a problem if the economy were to stagnate** for a prolonged period: we had a taste of this scenario last week, with violent profit takings on the Nasdaq.

- **This selloff doesn't mean the melt up is over.** But one thing is sure: The Nasdaq has gotten too far during the recent weeks. US executives took advantage of the market rally to sell 6.7b$ of their own companies shares in August, the biggest dollar amount since November 2015**. When insiders take profits, this should ring a bell for other investors!**
- The SP500's valuation is 26 times expected earnings (compared to a historical average of 18), while the real economy confronts the clear and present danger of a relapse. Same story in Europe: **many economists are now concerned that the pace of recovery on the Old Continent may fade**, particularly with a potential 2nd wave of Covid infections. This is a significant headwind to the stock market, like it or not. And that's even before considering the US political season ahead.

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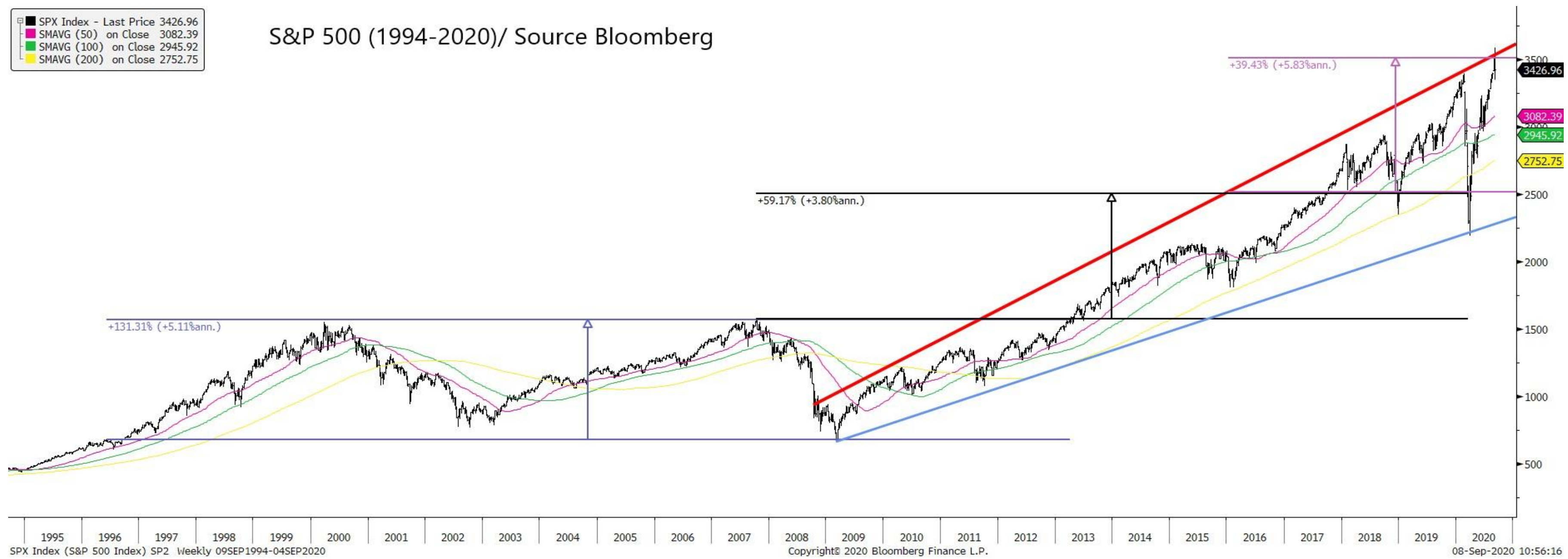
3. **Finally, long term S&P500 chart analysis supports the hypothesis of a correction** – which may trigger algorithm's selling signals**, especially if the 3,450 / 3,500 resistance remains unbreakable** – something we observed on Thursday, September 3, when the S&P experienced one of its worst days since March.

Please see graph hereafter (period 1994 to 2020, weekly basis): **a 10% decline in the 3,050 / 3,100 area** is a scenario to be considered for the coming weeks.



Maybe then, when certainties turn into doubts, we will have a genuine correction, likely to reduce somewhat the disconnection between the stock market and underlying fundamentals, this gap being at its highest level in 30 years. Maybe then we will have interesting investment opportunities– in the meantime, we will continue to focus our investment strategy on real assets and option strategies, a limited way, mainly on deconfinement stocks. We also hedge our most dynamic portfolios, in the absence of any new bullish relevant catalyst.

Worth to mention, as a conclusion: the growing social imbalance, **totally ignored by the financial markets, could also send indexes lower**; while there are encouraging signs of economic stabilization in the United States, we should not ignore the unprecedented wealth divide in US history – and elsewhere. Unemployment rate came out better than expected but the reality is that 1 in 2 workers displaced by the pandemic remains jobless.

So the main economic risk may not come from Wall Street with its highflying valuations, its volatility or repeated bubble stories, but from Main Street, where middle class people are almost without safety net and just feel more and more unsecure regarding jobs, health situation and retirement plans – this may eventually become a source of protests or / and paralysis.

Thus if Main Street doesn't catch up somehow with Wall Street in the near future, the efforts of central banks may just be wiped. **Wall Street could finally be confronted, at least for a little while, with the real world**: potential bankruptcies, strikes and social unrest... certainly not something helping to restore confidence and growth, already fragile as a consequence of the endless Covid crisis!

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