ATHÉNÉE PATRIMOINE

MONTHLY BRIEFING JUNE JULY 2021

Comments (Portfolios and Athénée Investment Model)

Earnings season has kicked off. And it might be just what the financial markets need; indeed, investors are constantly worried about inflation, the Delta variant or Central Banks' potential tightening measures – though one step backward is quite always compensated by one step forward thanks to strong recovery, green light to the US infrastructure plan or hope for more borders openings.

But now doubts seem to prevail. **Indeed it is very tempting to go somewhere between cautious and bearish** due to mixed data and historically high stocks valuations. However, **it is a tough strategy to bet against strong demand, massive quantitative easing and earnings that could once again beat the consensus** – especially as we continue to have negative real yields across all the yield curve.

Actually, Q2 earnings might give us a reliable clue regarding the upcoming trend; **particularly important will be what companies say about the 6-12 month outlook that could set the "tone" for the summer**. Indeed, it won't be enough to say that business is picking up; **investors are looking for a stable recovery** and better earnings growth beyond 2021. If they don't hear that, it is likely that equities could be choppy, best case without trend - especially in the USA - where many companies are priced for perfection and sometimes beyond common sense!

However US and European indexes ended last June's session at records, **emphasizing how difficult it is to turn away from risky assets; and by the way, investing in what instead?** The 10-year yield is back to its February level, i.e. around 1.30%, even though, back then, bets were high that the T-Note would reach 1.8%-2% within months... The recent descent in bond yields, against all odds, has underpinned the S&P500 rally, enabling **the US index to gain more than 5% for five quarters in a row**.

Athénée Mercury Certificate (International Stocks Long Only)	+6,53% YTD (30/06/2021)	+28,10% (from 27/03/2020 to 30/06/2021)

Performances	2021 30/06/2021	2020	2019
STOXX600	+13,49%	-4,04%	+23,16%
CAC	+17,23%	-7,20%	+27,86%
SMI (CHF)	+11,58%	+0,82%	+25,95%
S&P500 $	+14,51%	+16,26%	+28,88%
NASDAQ $	+12,54%	+43,64%	+35,23%
MSCI Emerging $	+6,46%	+15,84%	+15,42%
EUR / USD	-3,02%	+8,94%	-2,22%
Gold $	-6,26%	+25,12%	+18,31%
US Yield 10 year (T Note)	1,466%	0,91%	1,92%
Allocation Tracker Classique	+4,31%	-0,83%	+7,05%

This is only the second time since 1945 that it happens. The previous occasion was in 1954, a time when the Fed was also trying to get out of a period of ultralow rates. And that didn't end in a bust - of course there were a few bumps on the road, but the global trend remained positive over the next 12 months. Will history repeat itself? Given that credit spreads hovered at historical low levels (see our graph next page / high yield vs. investment grade), that investors' confidence is at its highest and that some valuations are just stellar nothing is certain – even if the famous TINA should continue to work, as there has never been more cash on the sidelines.

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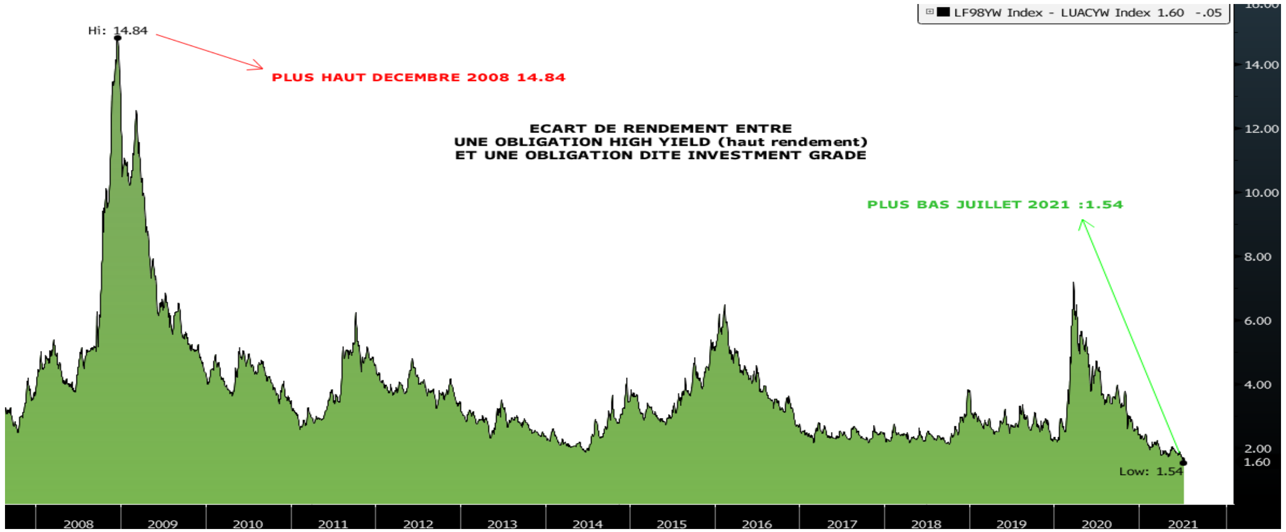
The reopening theme may lose some steam as well, but other sectors could take over, supported by stimulus plans and post-Covid new consumption habits (focused on environment or health issues, as well as possible industrial relocation).

In this context, investors will need to **take a deeper look into companies' businesses to determine which ones have the ability to thrive in a more complex environment**. The case for a relative outperformance by Europe is quite strong, with the implementation of the NextGeneration EU plan (a first tranche of 20bn euros was released on June 15), aimed at financing green energy, digitization and infrastructure across the EU through 2027.

However, it will **be difficult to choose between growth and value stocks**; the latest mixed macro data suggest that we are in an economy that is strengthening but does not appear to be overheating. Now the list of reasons for transitory inflation is as long as the one for persistent inflation: in such a context, a "*barbell*" strategy, recommended in our April-May Briefing is more relevant than ever. We also keep cash in case of a bumpy summer road and stay away from bonds, as current yields do not seem to be in line with the economic reality (however, we include private debt to our portfolios, where we control the setting up and monitoring). As for the rest, better watch out and keep a close eye on markets !

(*) Acronyms definition

- *High Yields : bonds offering higher yields in exchange of higher solvency risks*
- *Investment Grade : credit quality bonds*
- *TINA : There Is No Alternative … to stocks !*
- *FOMC : Federal Open Market Committee -> determines the US monetary policy*
- *MBS : Mortgage Backed Securities*
- *Barbell : a strategy composed of securities belonging to opposite sectors*



About the Fed: again and again …

Early June, the Federal Reserve announced that it would start selling corporate bonds bought during the depth of the pandemic, which can be seen as the first baby step toward more restrictive measures. At the same time, annual growth in M2 money supply contracted from its February peak of 25% to 14% in April.

In this way, tapering is undoubtedly under way and it is likely that at the next FOMC meeting on July 27-28, Jerome Powell might talk about the Fed slowing securities purchases; as a reminder, the US Central Bank purchases amounts to $120bn per month, including **$40bn of MBS (*). In a context where real estate sales and housing prices are on fire, it would make sense to put an end to interventionism on the mortgage market!** Should this not happen, the Fed may have to explain the rationale of continuing an emergency market policy now the emergency in financial markets is long past.

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These tightening measures (existing and potential ones) are leading some economists to predict **a decline in GDP as early as the second half of 2021**, which may be an explanation to the descent of the T-Note to 1.30% (from its March peak of 1.75%), **unless the Fed has already implemented a "*curve control*" strategy, in order to support the economic recovery and stabilize the stock markets.** In fact, the rise in stocks feeds both the wealth effect of American households (supporting strong consumption) and 401K retirement plans (baby boomers are now retired, the aging of the population is accelerating - the ascent of Wall Street is no longer the private garden of the wealthy ones; it also affects the social order of the American system).

Homeworking : the oder side of the coin… maybe !

If some people talk about **industrial relocation** (justified by lower transportation costs, greater autonomy with respect to third countries, productivity gains from artificial intelligence and robotization), one can raise the question of the **offshoring of services**.

A recent study in the United Kingdom points to a possible consequence of homeworking if it becomes the norm: "*One in five jobs based in the UK could be outsourced to other countries in the wake of the pandemic, threatening the loss of well-paid white collar employment. 5.9 million "anywhere" workers (from graphic designers to software programmers) could be at risk. The mass experiment with remote working means that companies concerned about costs could decide to keep just core and decision staff for in person collaboration*."

Such a development is by no means a certainty, but it raises real questions about the future location of our activities, even the nature of our jobs (we can bet that the banking sector might be part of this potential reshuffle) So long life to our jobs at the office – particularly if no break at the beach is in sight!

(*) Source: Tony Blair Institute / Bloomberg

Translation of the cartoon : Everybody at the beach this summer !
Silence please ! Some people are homeworking here !
Thx @ My Funds Office – 16 rue de Chaillot, 75116 Paris, France – for the very kind copyright, we absolutely love Wingz weekly illustrations !