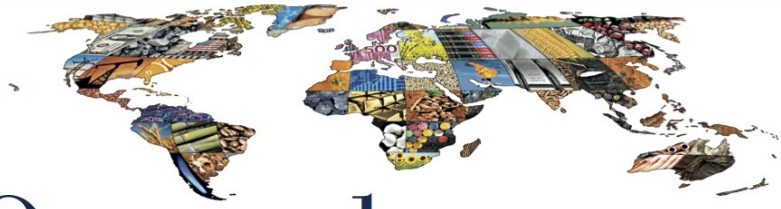
2pm PERSONALIZED PORTFOLIO MANAGEMENT



Quarterly marketreview

JULY 2020

Editorial

The incredible ascension of world stock markets in the second quarter…

It will be remembered that the first quarter of 2020 has been perilous for the world's stock markets with the spread of the Covid-19 virus from China to the rest of the world at the end of February. As a reminder, the Eurostoxx50 index lost almost 40% from the end of February to mid-March, a shock of a magnitude never witnessed since the crisis of 1929 ! True to our principles, as we mentioned in our last editorial in early April, we tried not to panic, to keep a cool head and even put risk in the portfolios during the second half of March, both in equities and in bond allocation, which was also hard hit by the widening of spreads. We took it well, because this second quarter 2020 has been particularly promising for the equity and credit sphere in a context where central banks and governments have provided huge amounts of stimulus, and with the gradual rebound in economies with the start of end-lockdown at the beginning of May. This has not prevented traditional shock absorbers such as gold or government bonds from performing well.

Three phases can be distinguished in this stock market rebound: From mid-March to mid-April, we were able to observe the type of classic rebound which we traditionally witness after a crash of a certain magnitude; impulsive, vigorous, carried by the largest market capitalizations. It is clear that when we notice in just four weeks downturns on the order of -60% in large world leaders like Airbus or Valeo, a significant fringe of investors, aware of the exaggerated nature of the massacre, did not hesitate to go hunting for bargains. Then followed a second phase of horizontal consolidation, the operators hesitating between the macro or micro-economic news not as catastrophic as reported, and the somewhat toxic dispatches concerning the development of the pandemic, with morbid number counts of escalating deaths, especially on the American front. This horizontal consolidation phase lasted a good month, from mid-April to mid-May, with a Eurostoxx 50 index oscillating, for example in a fairly narrow corridor, between 2800 and 3000 points (note that the American stock market has shown significantly more vigorous trading during this period, driven by its technological sector, imperial since the beginning of the year). Finally, since mid-May we observe a third bullish phase, driven by the improvement in macroeconomic data and the growing feeling that the worst should be behind us as regards the real economy.

This great stock market recovery could never have happened without the credible and coordinated response of central bankers and governments. The magnitude of the monetary and fiscal reaction has indeed been unprecedented and should be sufficient to allow the economies to pass this bad course linked to the pandemic, with all the disruptions that we have witnessed in a good number of sectors (air, automobile, tourism…). With an initial injection of 2 trillion dollars, the American stimulus thus largely exceeded what had been provided during the 2008 financial crisis. Let's acknowledge that the US economy was rather healthy at the start of the year before the expansion of the virus. The technical recession that the country has just experienced is more an exceptional recession due to an exogenous shock than a classic end-of-life recession following a period of economic overheating. This is encouraging for future recovery.

Another rather positive factor, stocks are more than ever attractive in terms of value compared to bonds, with the continued decline in yields. What is more, with the aging of populations in most developed countries, the quest for long-term returns is more significant than ever. Money rates are negative, bond yields are at historic lows. For the investor looking for long-term returns, the equity bet is far from being insane after the shock we have just experienced, especially since, in the United States for example, the average rate of dividends on stocks hovers around 2%, compared with the 0.65% yield offered by the 10-year US Treasury. As the acronym says "T.I.N.A", "There Is No Alternative", i.e. there are no alternatives to equity investing for the long-term investor desiring a minimum income.

Finally, to conclude on the grounds of optimism, it should be pointed out that rarely has the spread in the valuations of companies been so great, as shown for example by the P/E ratio of the least expensive stocks vs the P/E market average. The stock markets have certainly rebounded and retraced 50 to 75% of the decline in the first half of March, depending on the area. But this rebound was quite uneven. Thus in the US, it was mainly driven by technology and the pharmaceutical sector, leaving on the sidelines many sectors and

	Q2 2020	FY 2020	Close 30/06/20
DOW JONES	17.77%	-9.55%	25 812.88
S&P 500	19.95%	-4.04%	3 100.29
FTSE 100	8.78%	-18.20%	6 169.74
EUROST.50	16.05%	-13.65%	3 234.07
CAC 40	12.28%	-17.43%	4 935.99
FTSE MIB	13.63%	-17.57%	19 375.52
MSCI EM	17.27%	-10.73%	995.10
CRUDE OIL	91.75%	-35.69%	39.27
GOLD	12.92%	17.38%	1 780.96
EUR/USD			1.1234
EUR/CHF			1.0642
EUR/GBP			0.9058
EURIBOR 1M			-0.510%

good values, which still present today reasonable levels of valuation. Blessed mana for experienced stock-pickers and active managers that we like to select at 2PM.

However, we are not plunged in blissful optimism. Far from that. Because of many remaining risk factors to which we will be particularly attentive during the summer and in the coming months.

The first of these is obviously linked to Covid-19 and the risk of a second wave of contamination. This virus is new, unprecedented in annals to date; and in the absence of a vaccine is not completely contained, as the news bitterly reminds us at present. Even though it has stabilized in Europe, the epidemic is still expanding in much of the world. Two symbolic thresholds have just been crossed. As of July 3, more than ten million cases of SARS-CoV-2 infection have been detected in 188 countries, killing more than 500,000 people - more than doubling in two months. If more than 5.5 million people have recovered from the disease, which can take lengthy phases and cause late recovery, on June 29 WHO warned that the epidemic is "far from over." Such is the case in the United States, where the number of new cases has seen a dramatic surge in recent days, leading some states to reintroduce emergency restrictions. On July 3, a record level was reached with more than 57,000 new infections in twenty-four hours. Four American states - California, Arizona, Texas and Florida - now account for half of the new cases. The health situation is also worrying in Latin America and the Caribbean, the current epicenter of the epidemic, where the number of cases of infection (2.7 million), half of which in Brazil, now exceeds that of Europe.

The second risk is related to probable business bankruptcies. Central bankers, despite the ma-

gnitude of the stimulus, were clear. They can only lend, not spend, and therefore cannot decently save all companies that threaten to file for bankruptcy. With all the risks that this entails in terms of employment. Furthermore, some countries may be tempted to withdraw their stimulus too early. England is a good example of this and has just announced that the country wants to cut the costs of £ 14 billion a month from the temporarily unemployed. Currently, the government pays 80% of the wages of laid-off employees, up to a limit of £ 2,500 per month. It plans to reduce this to 60% by October. And, intends to involve companies in the payment of partial unemployment. If they continue to benefit by August, companies will have to pay Employer National Insurance spending up to 5% of employment costs. They will also have to pay 10% of the salaries of those laid-off in September, and 20% in October.

Finally, political and geopolitical risks remain. The American election (and its share of uncertainties) is fast approaching, see our Special Topic on page 4. What is more, Sino-American relations have rather deteriorated during this pandemic, with more competition and less cooperation.

In this still uncertain context, we continue to favor managers with a focus on the quality of companies and are strengthening geographic diversification in our portfolios with increased interest in areas such as Switzerland (see our Wide Angle below) or even Scandinavia, two economic spheres which over the long term managed to outperform the Eurostoxx50 fairly substantially. We maintain our positions in our most defensive and protective asset allocation funds like Ruffer or BNY and maintain our historic position in physical gold.

Christophe Carrafang

The Big Picture

Investing in Switzerland: "Small is beautiful"

The list of assets of Switzerland, a multilingual country of 7.5 million inhabitants, is long. Political and social stability, innovation and economic prosperity, and a strong currency are part of Switzerland's reputation. This feeling of "quiet strength" gives confidence to international investors, often in search of a safe haven.

The quality of Swiss training and research is excellent. Such a key to progress has earned Switzerland the title of "world champion of innovation". A known example is the pharmaceutical sector where Switzerland plays a major role on the international level, but this rings true in a whole series of industrial sectors (chemistry, cleantech, medical instrumentation). Switzerland spends 3.4% of its GDP on R&D, more than anywhere else in the world, including the United States.

Despite a strong currency - the Swiss franc has grown since the creation of the Euro at an average rate of 2% per year, Switzerland is considered a very competitive country, world number 1 according to the World Economic Forum. Sound public finances go a long way to boost confidence in the economy. This also applies to its fiscal policy, which relies on a federalist system focused on competition between cantons and municipalities. The state's debt-to-GDP ratio is only 13% when it has exceeded 100% in France and is heading towards 140% in Italy.

One of the most advanced healthcare systems in the world; a secure and competitive energy supply; and a very modern infrastructure network.

An open and flexible job market that allows companies to find the workforce they need. They can more easily adapt their needs to changing economic conditions. However, the unemployment rate is structurally low, currently 3.4%. Other evidence of Switzerland's success is that per capita income is one of the highest in the world, while the number of strike days is one of the lowest.

In view of this track record, listed companies are highly sought after, making Switzerland a major financial center; moreover, the first in the world for the management of private savings. As a small country, Switzerland supplies a large number of industrial giants, often leaders in their activity such as Nestlé, Givaudan, SGS, Lafarge-Holcim, Lindt, or Rolex.

The size of the market is comparable to that of Germany and the volume of shares traded daily on the Zurich Stock Exchange (5th in the world after Hong Kong) compare with those observed in the major European financial centers. If we add that the performance of Swiss equities is very close to that of the American leader (8% per year against 10% in the United States over the last 5 years), we can better understand the interest of investing in Swiss equities. Swiss stocks have the immense advantage of being significantly less volatile. More resistant in tempestuous periods, they participate better than others in phases of increases with the exception of the United States. This year we saw this when the coronavirus crisis caused the collapse of major stock market indexes. As of June 30, at the end of the most volatile first half of the century, Swiss equities finished down only 5.4% where the Eurostoxx 50 index fell by almost 14%. "Last but not least", unlike in the United States where there is total uncertainty about the evolution of the dollar, when you invest in Switzerland, you are almost certain to realize exchange gains.

Geoffroy de Villaines

Macro-economy

Consumer: The key to recovery

- Rates for savings are rising and at their highest in all developed countries including China, due to the lockdowns, state aid and precautionary savings.
- The rebound in confidence indicators is significant, however there is still room.
- The job market is improving with the massive end of partial unemployment measures. In the States, of the 22 million jobs cut in March and April, 7.5m have been reopened in the past two months.
- The rebound in PMI services indicators is encouraging and forecasts a rapid return of consumption to pre-crisis levels. The big surprise comes from the ISM of services expected at 50.2, appearing in June at 57.1.
- Nevertheless, it will be necessary to monitor new instances of partial lockdown and social plans which could slow down recovery.

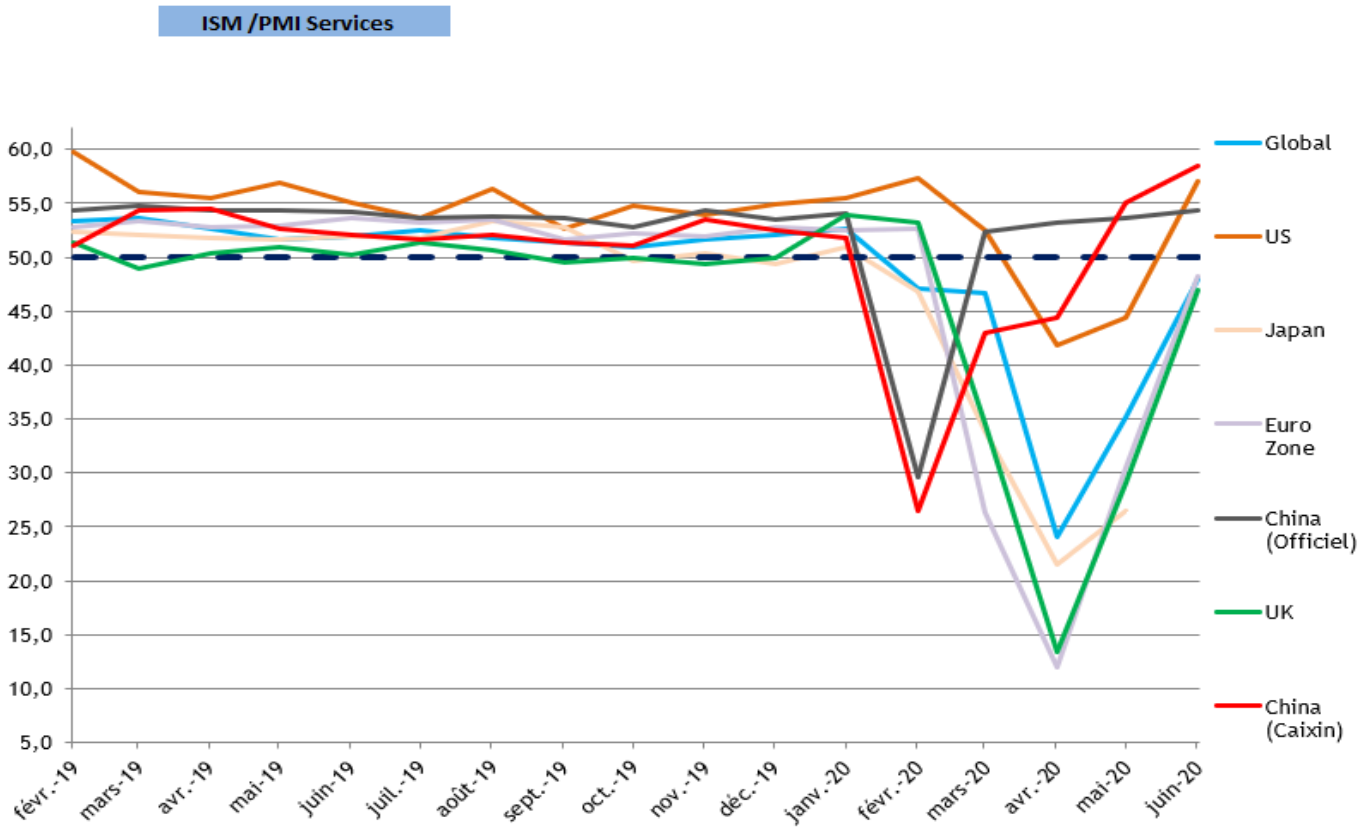
Manufacturing activity: Strong rebound

- Figures for June illustrate a rapid recovery in activity, often far beyond specialists' expectations.
- The restart of production seems to contradict those who feared a disorganization of the supplier/customer circuit.
- After a historic low of 33.4, the Eurozone manufacturing indicator came out at 47.4 for June, and even at 52.3 for France.
- Having been confronted with a softer lockdown, the manufacturing recovery in the United States is on the march with a figure of 52.3 in June against 41.9 in April.
- China confirms its return to growth with figures above 50 for the 4th consecutive month.

Inflation:

- With the virtual cessation of activity, inflation rates have declined around the world.
- In the Eurozone, inflation stood at + 0.3% in June after a low of + 0.1% in May.
- In the US, after reaching a high of several years in January at + 2.5%, inflation fell to + 0.1% in May and should rebound in June around + 0.6%.
- Inflation trends over the next few months could be surprising. Many expect heavy price pressure in a recessionary environment. However, with the influx of liquidity, the rebound in the price of raw materials, and the temptations in certain sectors to raise prices to compensate for the loss of activity, nothing is less certain.

Damien Liegeois



Special Topic

The difficult Spring of President/ Candidate Trump

In mid-June, during a military ceremony, Donald Trump appeared weakened while descending a ramp with difficulty, an episode which followed other worrying signs of weakness. It must be said that Spring was not a soft one for the main occupant of the White House.

2020 had started off well with an optimal economic situation; 3% growth, unemployment rate at its lowest and on January 15 the signing of the first part of a trade agreement with the Chinese.

But that was without counting on the Covid -19 pandemic, a brutal halt in the economy, and the icing on the cake was the death of George Floyd under the conditions we know, and with the dramatic consequences of recent weeks.

Public opinion is turning around. National polls show Donald Trump losing, including in the "swing states" that tipped the elections 4 years ago in his favor. The difference at national level is 50/52% for Joe Biden against 43/44% for his opponent, with still a fairly large number of undecided. More worrying according to other polls, Donald Trump is less favored by those who elected him; still in the lead but losing momentum among the over 65s, right-wing Catholics and especially among evangelicals.

4 years ago Mr. Trump was already behind in the polls and came out strong. However, several headwinds arose. Unlike Hillary Clinton, this time his opponent is not unpopular, Joe Biden enjoys the support of the entire Democratic Party. Starting out with 20 candidates and very disunited, Joe Biden knew quickly, at the cost of a political shift somewhat to the left, to rally the party around him. The only remaining unknown is the name of his running mate. The latter said it would be a woman, the list goes on, but none of them really stand out.

As the elections in the United States are also a big money deal, this time the Republicans have the advantage: they have raised $265m against $130m for the Democrats, note however that in May, the trend was perhaps reversed, since for the first time the Democrats received more.

Following his mismanagement of the pandemic and the racial incidents linked to the death of George Floyd, criticism and controversy over the President became harsher, and even within his own camp. Some republican leaders have even launched a few months ago the Lincoln project with a goal to block a President who does not respect the constitution of the United States, and in this context publicly support the Democratic candidate. More recently, the failure of the Tulsa meeting has made Trump furious and created great tension within his campaign team. The release of John Bolton's memoir, a former White House homeland security advisor, The Room Where It Happened is making waves. Even worse in July, his niece Mary Trump, psychologist, will release a revelation book (which the White House is trying to have banned) on the consequences of the President's childhood on his behavior, with a catchy title to say the least: Too Much and Never Enough, How My Family Has Created the World's Most Dangerous Man.

History has taught us that nothing is over until the fat lady sings and that reversals are always possible. However, apart from a major economic rebound by November, or a big political mistake by Joe Biden, it is hard to see how Trump could continue his adventure in Washington today.

Damien Liegeois

JOE BIDEN