## Market review July 2020


What a half year period! Investors (including us) went through every emotion since the start of the year. From initially thinking that Asia would be able to restrict the spread of the virus as it had more or less managed to do during previous epidemics (I was one of them, mea culpa), to then seeing an essential freedom taken from us, namely freedom of movement. Some are still debating the merits of lockdown decisions, but the fact remains that the example of Sweden proves that the economic impact has been just as negative for countries that have chosen a different strategy. So, after historic declines between February and March, the second quarter of 2020 will also go down in the annals of history with an equally extraordinary bounce-back in the stock markets. The increase in June is less impressive than those of April and May, but is still remarkable. For once, with its 6% increase over the month, the index of major European stocks, the Eurostoxx 50, outperformed most American indices, including the Nasdaq (+4.8%)! This European outperformance can be attributed to a strong bounce-back in the Utilities (+5.3%) and Financial (+ 6.6%) sectors. However, over the first half year, Europe's underperformance remains still marked.



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**Market trends at end of June 2020**

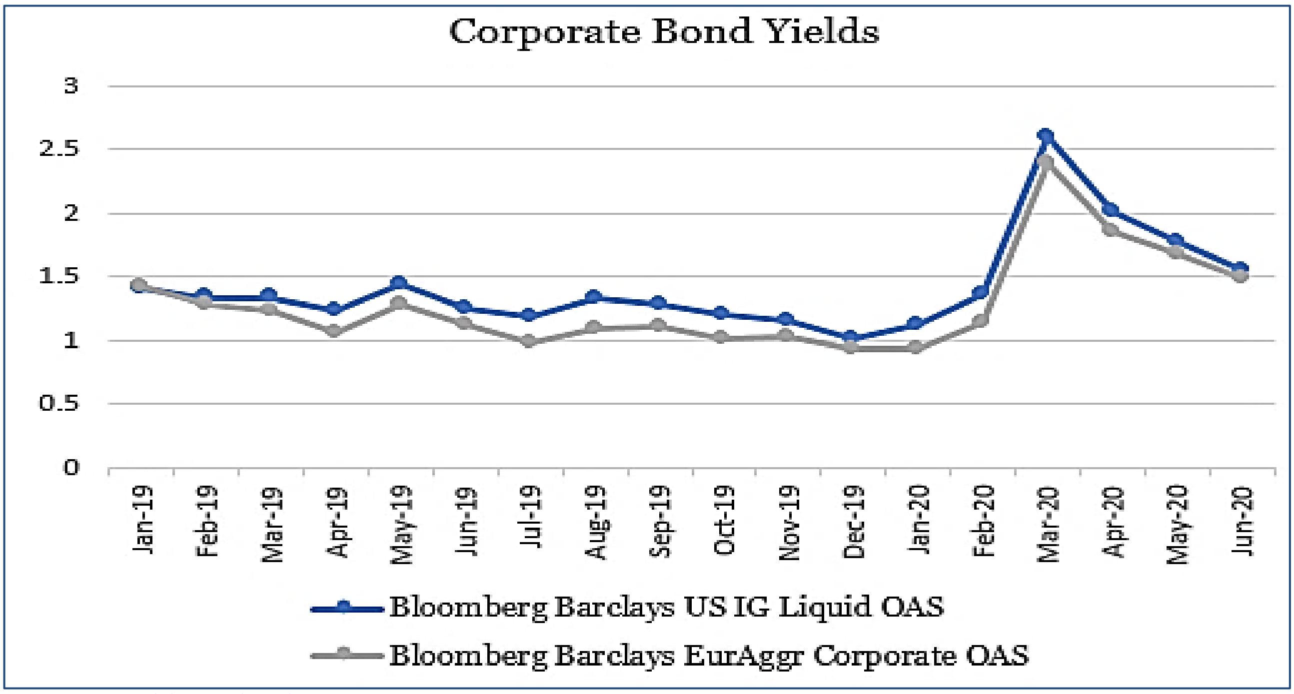
| End of June | MSCI World | S&P 500 | Equities in Local Currencies EuroStoxx | CAC | Spain | Switzerland | UK | Hong Kong |
|---|---|---|---|---|---|---|---|---|
| **Perf 1 Month** | 2.51% | 1.84% | 6.03% | 5.12% | 1.90% | 2.17% | 1.53% | 6.38% |
| **Perf 3 Month** | 18.84% | 19.95% | 16.05% | 12.28% | 6.57% | 7.88% | 8.78% | 3.49% |
| **Perf YTD** | -6.64% | -4.04% | -13.65% | -17.43% | -24.27% | -5.38% | -18.20% | -13.35% |

| End of June | WTI Oil | Brent Oil | Commodities Gold | Copper | USD | Currencies vs EUR JPY | GBP | CHF |
|---|---|---|---|---|---|---|---|---|
| **Perf 1 Month** | 10.65% | 16.47% | 2.93% | 11.88% | -1.15% | -1.21% | -0.73% | 0.31% |
| **Perf 3 Month** | 91.75% | 80.96% | 12.92% | 21.49% | -1.79% | 2.19% | -1.90% | 0.36% |
| **Perf YTD** | -35.69% | -37.65% | 17.38% | -2.58% | -0.19% | 0.44% | -6.64% | 2.01% |

| End of June | Global Aggregate | US Aggregate | Bloomberg Indices Bonds Total returns Euro Aggregate | US 10 Year Treasury | German 10 Year Bund | Global Credit | Global High Yield | Emerging Sovereign $ |
|---|---|---|---|---|---|---|---|---|
| **Perf 1 Month** | 0.89% | 0.63% | 0.98% | 0.06% | 0.48% | 1.91% | 2.28% | 2.49% |
| **Perf 3 Month** | 3.32% | 2.90% | 2.39% | 0.79% | 0.75% | 7.68% | 12.19% | 10.00% |
| **Perf YTD** | 2.98% | 6.14% | 1.24% | 11.23% | 5.87% | 2.64% | -4.66% | -0.43% |

Source : Bloomberg 30/06/20

Credit spreads also continued to tighten, not only on investment grade bonds but also on high-yield bonds. This tightening even accelerated after the announcement by the Federal Reserve which, having announced it in April, really started to buy direct bond positions during June. Its Chairman, Jerome Powell, even announced that he wanted spreads to revert to their pre-crisis levels as soon as possible.




Source : KBR Advisors, Bloomberg



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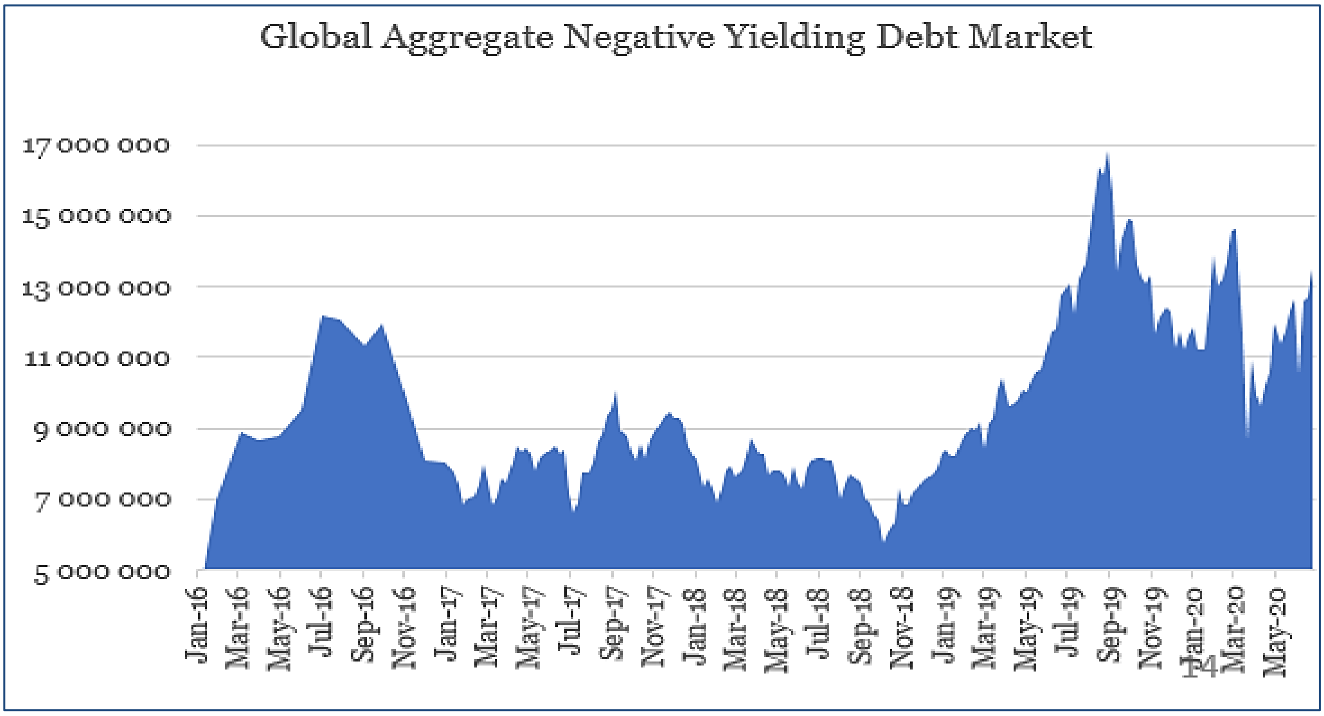
During its last meeting in June, the FED also announced that rates will remain close to zero at least until 2022. This, of course, caused the total amount of bonds offering a negative return to go up again. We are still far from the highs of summer 2019, but that reflects the difficulty of managing the bond allocation of portfolios and we are unfortunately far from seeing the end of it. Unless, as some have argued for the past few weeks, the consequences of lockdown could have a positive impact on inflation in the medium term. Massive injections of liquidity and de-globalization could cause a resurgence of inflation. This would, in addition, mechanically reduce the colossal debts of certain countries. It's an interesting theory, and possible, but we are not there yet.




Source : KBR Advisors, Bloomberg

Leading economic indicators continued to recover in June, fuelling the talk of the most optimistic who think the world economy will experience a "V"-shaped recovery. We have no opinion at this point on this and welcome these indicators that are recovering, but as we have said and repeated, certain parts of the economy will need more time to recover from this episode. Especially as the virus is not yet completely under control. We have seen a peak of new cases in May and a drop since, but some outbreaks occurred again locally whether in China or the USA. This slows down the lockdown easing process and should therefore curb the economic recovery. Not to mention the negative psychological impact it could have on consumers.



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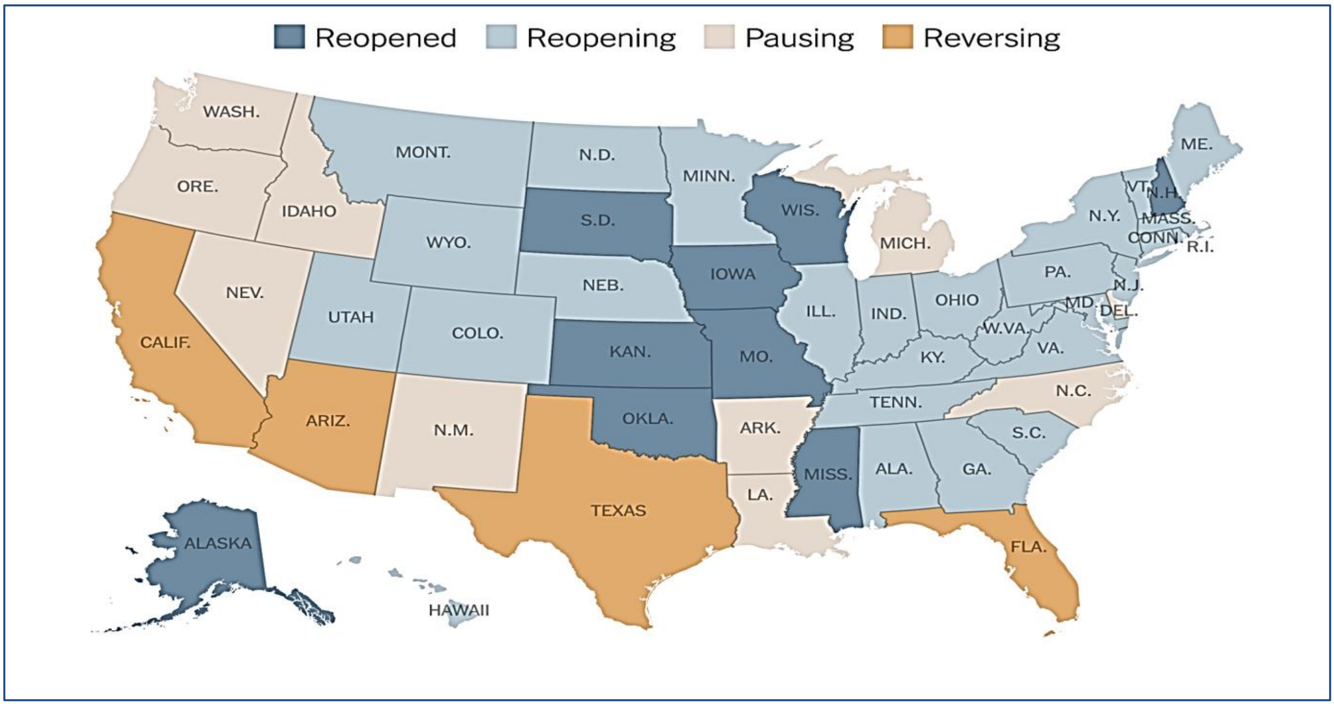


Source : NY Times, CNBC

In addition, the negative effects on employment will also be felt for a long time. According to Bloomberg's analysis, 30% of the jobs lost between April and May in the United States may never be recovered, which could accentuate social upheavals around the world, which is certainly something to think about.

As we said last month, the majority of investors have tended to see the glass as half full since April. We share many of their arguments, but remain sceptical about their ability to maintain this pace of recovery. We are about to enter the period when the results of the 2nd quarter are published. No doubt these results will be bad, but it will be interesting to analyse the comments that will be made by the companies' management. Hopefully they can give us guidance for the second half of the year, although they must have very limited visibility too.

We wish you a good summer.





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