2pm PERSONALIZED PORTFOLIO MANAGEMENT

Quarterly marketreview

JANUARY 2021

Editorial

On all points, 2020 has turned out to be a most unprecedented year.

Having begun in Wuhan in China at the end of 2019, the speed and spread of Covid-19 was such that three months later, the WHO spoke of a rare pandemic with strong consequences for the whole humanity. They were not mistaken about the consequences ... Indeed, from the month of March, the only solution found by the world elites to curb a meteoric spread was a general lockdown. In the first week of April, nearly 4 billion people were in lockdown around the world. One in every two earthlings stranded at home! Never witnessed! It was therefore quite normal that the financial markets, faced with this entirely new kind of uncertainty, took a blow. Very severely. Yet the year had started well. In mid-February 2020, the S&P500 index rose 4.62% on the back of a finally sealed Sino-US trade agreement, and manufacturing activity indicators recovering after several months of continuous decline. But the rapid spread of the virus in Europe from the end of February coupled with the oil shock of early March caused a reversal of unprecedented brutality. From its

high on February 20 to its low on March 20, the Eurostoxx50 index fell by almost 40%! Never in the memory of the market had we seen such a violent shock, not even in 2008. Fortunately, political and monetary authorities, armed with the experience of past crises, had a powerful and coordinated response. Governments implemented unprecedented support measures to keep the economy above water: massive support plans for businesses and employees, crisis-related fiscal policies, changes in regulations, etc. Central banks also came to the aid of the markets and the economy to ensure maximum liquidity in the financial markets and avoid a financial crisis. The US Federal Reserve announced in the spring of 2020 a new asset purchase program of unprecedented scope, unlimited in size and time, support measures for student loans and households, while Congress arrived at an agreement on the plan to support the economy with $2,200 billion, or nearly 9% of GDP! In the Euro Zone, the ECB for its part initiated the implementation of the PEPP (Pandemic Emergency Purchase Program), an ambitious program of asset buybacks of 750 billion euros.

These measures helped the markets to reverse the trend and even to rebound sharply in the second quarter, as the good news grew (end to lockdown, resumption of activity, health issues, etc.). Important companies, leaders in their field such as Airbus or Valeo, which had experienced plunges of around 60% in February/March, rebounded extremely vigorously, while in the United States a powerful rebound was taking place, but very focused on Nasdaq technology stocks, and even more on FAANGs (Facebook, Apple, Amazon, Netflix, Google ...).

The appearance of the second wave of contamination in the fall, with its fears of re-lockdown, even partial, initially frightened the markets but it was ultimately the reason that prevailed, especially after the announcement of results of the Pfizer-BioNtech vaccine in early November which triggered an unprecedented rally, ending two uncertain and volatile months on the equity markets.

On the bond market, nervousness was also manifested in 2020, with major dislocations in the credit market, marked by a rapid widening of spreads and low liquidity. Numerous high yield funds were inflicted in March with declines of -10 to -15% in the space of two weeks, before recovering, thanks to the action of central bankers.

Real estate had also been put to the test this year, especially during the first lockdown: construction stoppages, slowdown in the banking system and loans, concerns about the office sector with traffic restrictions and the rapid rise of teleworking. And this was very clearly felt with exacerbated volatility on listed property values such as Klepierre or Unibail, which after having paid a very heavy stock market price after the first lockdown (-70% for Klepierre from January to the end of October, practically - 80% for Unibail), both experienced an incredible rebound.

	Q4 2020	FY 2020	Close 31/12/20
DOW JONES	10.17%	7.25%	30 606.48
S&P 500	11.69%	16.26%	3 756.07
FTSE 100	10.13%	-14.34%	6 460.52
EUROST.50	11.24%	-5.14%	3 552.64
CAC 40	15.57%	-7.14%	5 551.41
FTSE MIB	16.92%	-14.34%	22 232.90
MSCI EM	19.34%	15.84%	1 291.26
CRUDE OIL	20.64%	-20.54%	48.52
GOLD	12.54%	25.12%	1 898.36
EUR/USD			1.2216
EUR/CHF			1.0812
EUR/GBP			0.89374
EURIBOR 1M			-0.567%

But it would be a bit limiting to attribute the rally in the second half of the year to the Pfizer vaccine alone. Operators have also welcomed the responsiveness and unprecedented scale of the measures to support the economy. For Europe, in addition to the recovery plan of 750 billion euros, the 27-member states have also reached an agreement for the next multiannual budget of the European Union 2021-2027 of more than 1 trillion euros. In the United States, heavy artillery has also been deployed: the stimulus package announced in March is the largest in the country's history at $1.8 trillion. And Donald Trump finally signed the new $900 billion budget support law, comprising: $284 billion in guaranteed loans to SMEs, unemployment benefits up by 120 billion, checks of $600 per household member (for a total $186 billion), $82 billion for schools, $45 billion in aid to the transport sector, $20 billion for the purchase of vaccines, $8 billion for the distribution of these vaccines, $20 billion for testing led by states and an additional $20 billion for health professionals. Plus $25 billion in rental aid. All this is very important and overshadows the very tight results of the American vote and the fact that Donald Trump has still not recognized the victory of his Democratic opponent, multiplying legal pursuits, which in other times, would have made the market rather nervous.

2020 was also a key year for Brexit with a last-minute forceps torn agreement on December 24th and which provides in particular avoiding the establishment of quotas and customs duties on trade between the two zones as of 01/01/2021. It also preserves wide access for European fishermen to British waters for 5 and a half years.

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Edito part 2

On the other hand, for financial services, nothing has been finalized and discussions will have to continue until the end of March. British exports, 46% destined for Europe, will therefore be able to continue at no extra cost. The same goes for European exports. Relief arrives for the aerospace, automotive and food industries for which the UK is a prime market. On the other hand, there is the return of customs, which were abolished in 1993. Import and export declarations will be the rule for any transaction. This increased administrative burden risks pushing up prices. Without mentioning the impact on the fluidity of trade, while customs officials will have to examine the documentation of each truck, at a minimum, and that the controls, especially veterinary, will be systematic for the food industry.

The 2020 results are therefore not as dire as we might have expected in the spring. Financial markets, both stocks and bonds, have largely recovered. The Eurostoxx50 index, which lost -36% on March 18, finally ended the year at -5.14% while all US indices are positive. As are emerging indices. And safe havens such as gold have also contributed to the good performance of our portfolios. After this incredible year 2020, what can we expect from 2021?

This new year will see the arrival of new leaders at the head of the leading nations. This will be the case for the United States, but also for Germany, already nostalgic for its Chancellor Angela Merkel. As for America, it will be a question of being attentive to the amplitude of the measures taken by the future president. Joe Biden's program focuses on a stimulus plan and an increase in public spending, measures which should in theory boost growth in 2021. However, we do not yet know whether the new term intends to raise the level of taxation of companies. Donald Trump had implemented a major tax reform to boost growth. Will Joe Biden leave the level of taxation as it is or will he go back on the reform? This subject could be a source of concern for companies and for financial markets. In Europe, German Chancellor Angela Merkel has said she does not want to stand for re-election in 2021 and will step down after 15 years in power. The question of her succession has already been raised for months, but no candidate has yet been nominated to succeed her in her own party. Germany already regrets its chancellor and cannot yet find a successor to match her. New leaders and those already in office will face the limits of public support. The rescue plans launched to mitigate the effects of the health crisis were unprecedented, both in the speed of their implementation and in the magnitude of their scope. The financing of all these devices raises the question of public debt and monetary policy. This question, postponed due to the urgency of the health crisis, could resurface in 2021.

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The Big Picture

2021, a new golden year?

After several years of ebb following the 2012 Euro Zone sovereign debt crisis, gold began a bullish cycle in Q4 2018 and peaked last August above USD 2,000 per ounce before closing the year at USD 1900, up 25%. The decline observed since then legitimately raises questions about the sustainability of this cycle, as its evolution is far from linear. Paradoxically, fine metal is seen as a safe haven while undergoing volatility worthy of risky assets. We noticed this when the health crisis erupted in March, where in a matter of weeks it dropped nearly 15% to USD 1,500 an ounce.

The traditional factors which play a determining role in the evolution of the price of gold are mainly based on the following elements: Inflation and monetary policy, political tensions, the dollar, economic situation of the main consuming countries (China and India), and the management of the monetary reserves policy of central banks.

The outbreak of the coronavirus, by abruptly stopping consumption, provoked a reaction from governments like never before in economic history. More than USD 15 trillion were poured out to help the most affected sectors of the economy such as transport, leisure and tourism, not to mention the various support measures put in place (guaranteed loans, partial unemployment, etc.).

This new approach to budgetary policies, otherwise rigorous, is a turning point after many years, at least of trying to control deficits. This cocktail based on massive injections of liquidity and public spending is causing the explosion of the money supply (M2). In addition, these direct support measures for the most affected economic players cannot be "confiscated" by the banks for their own use, and in particular for asset buybacks. This direct transmission could therefore eventually become more of a source of inflation.

Another change in mentality is the Fed's new approach to the inflation outlook. The replacement of the fixed objective of 2% by an average, with the explanation that the American Central Bank would tolerate that this bar could be exceeded for several months before raising the interest rate, is also likely to spin a slight inflation.

Maintaining interest rates at zero for a long enough period - the ECB has spoken of at least 2 years - implies extremely low real rates, a phenomenon which is very favorable to gold because the cost opportunity of holding it becomes much less penalizing.

Another factor that could contribute to the continuation of the rally in gold is the dollar, which generally moves in the wrong direction. But since last spring and the Franco-German agreement to support the Euro Zone economy, the greenback has been in a downward phase. The policy of the new American administration with massive fiscal expansion and widening deficits does not seem favorable to a strong dollar. This political alternation is occurring at a time when the interest rate differential between the two sides of the Atlantic has never been so small since 2015.

In other words, the context still seems favorable regardless of any new international political crisis that is difficult to predict.

In conclusion, gold is a protective asset but highly volatile, to be considered with a view to diversification and long term. The symbolic threshold of USD 1,800 seems an interesting entry point for those who have remained on the sidelines so far. The more daring investors may want to look at gold mining stocks which are historically relatively undervalued regarding price per ounce and which offer leverage.

Dear investor, now it's now or never to make your choices!

G.de Villaines

Macro-economy

New lockdown restrictions that are less disruptive for activity, for a mixed 2020 results

STATISTICS:

- **Economists will have had a very complicated year understanding the consequences of the health crisis, with periods of virtual cessation of activity and periods of economic catch-up never witnessed before.**
- **During these months without activity many statistical series were skewed.**
- **How to calculate the price evolution without transactions, how to count the number of job seekers when state aid is not in the official figures, or when administrations do not have the capacity to process such flows of requests?**

GDP:

- **The changes in GDP over 2020 will be very disparate depending on the timing and treatment of the health crisis.**
- **China will be the only one of the big countries to have positive growth in 2020 around + 2%.**
- **The decline in GDP in the USA will probably be between -3.5% and -4.5%, while for the Euro Zone the decline will be closer to -8%.**
- **The new lockdown phases in the West were less disruptive in the last quarter.**
- **The PMI services indicator in the Euro Zone was 41.7 in November compared to 12 at the height of the spring crisis.**
- **In the United States, service activity is less disrupted; we expect 54.5 in December compared to 57.8 at the end of summer.**

INFLATION:

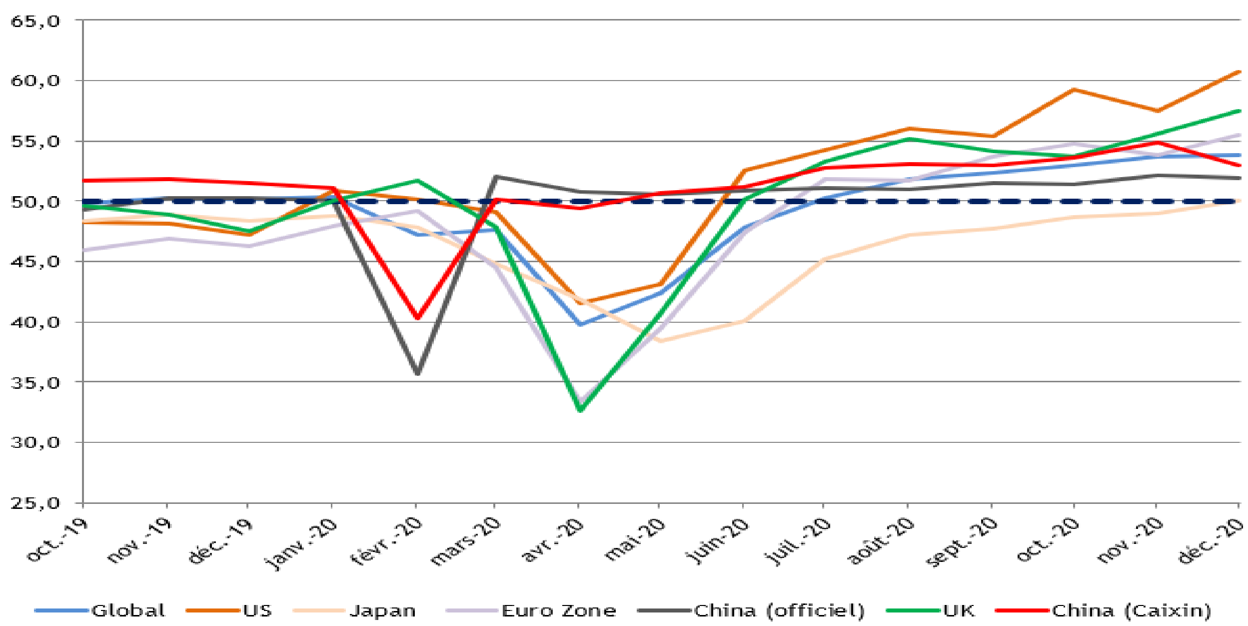
- **Not a short-term topic.**
- **At the end of the year, it reached + 1.2% in the USA, -0.3% in the Euro Zone and -0.5% in China.**
- **With the recent rise in the price of energy (oil, gas, etc.) and industrial raw materials, and thanks to base effects, there could be upside surprises as soon as the crisis is behind us.**

2021 OUTLOOK:

- **With the implementation of stimulus packages on both sides of the Atlantic, and the gradual return to normalcy around the world, the rebound in growth should be notable in the first half of the year.**
- **It is in the second half of the year that we will be able to quantify more precisely the effects of the crisis between catch-ups and net losses of activity.**
- **According to the latest fairly conservative estimates, in 2021, growth in the Euro Zone should be + 4.6%, and + 3.9% in the USA. The rebound will be more spectacular in China at + 8.2%.**

D. Liegeois

ISM/ Manufacturing Index/PMI since october 2019



Special Topic

Euro Zone: The big loser in the health crisis?

From a macroeconomic point of view, among the major economic zones, the Euro Zone has suffered the most. However, we can truly say that not many places in the world have been spared by this health crisis.

At the time of the provisional assessment of this pandemic, the evolution of the GDP of the large economic zones was particularly divergent. China, at the origin of this crisis, has managed it with an iron fist; it will be one of the few countries with positive growth this year, around + 2%. In the United States, lockdowns were less disruptive, even if the health crisis is significant. The all-terrain economic dynamism and a certain pragmatism made it possible to limit the shock. The decline in GDP is expected to be between -3.5% and -4.5%. In the Euro Zone, with an equally virulent epidemic, the restrictive measures taken have further disrupted the economy with a decline in activity which will be close to -8% in 2020.

Thus, Chinese GDP in dollars, neck and neck with that of the Euro Zone at the end of 2019, is now higher by nearly $1 trillion, and this in the space of twelve months. At the latest estimates in September, it reached $14.3t, while ours fell from $300 billion to $13.3t.

This crisis thus amplified a trend already underway. This is also true inside the Euro Zone where Germany will likely end the year with a GDP decline almost half that of France. The explanations are diverse: pragmatism versus dogmatism, centralization versus decentralization, handouts versus accountability, different work evaluations, precautionary initiatives taken to the extreme...

It is the whole concept of the Union that is fed up with not having been able to manage this crisis with common, effective and practical measures.

In this context, one can legitimately wonder if the cleavage within the Union between the "tourist and indebted" Southern grasshoppers (including France) and the "hardworking and frugal" Northern ants will not widen further. This crisis, in any case, will leave traces.

Paradoxically, 2020 is also the year of two major advances for the Euro Zone. The first, the agreement on the mutualized financing of the stimulus plan, with for the first time the acceptance of the German bloc of a start of mutualization of the debts (one of the best explanations for the recent surge of the euro?). The other very positive point is the unwavering unity of the 27 in the Brexit negotiations. Because if the negotiations have dragged on, it was more due to British procrastination than to the disunity of European negotiators that London was no doubt expecting.

European vaccine management will be very interesting to follow as the first crucial task carried out in this crisis by a European body. Failure is forbidden, but when we see that Germany preferred to order additional vaccines from its side for fear of shortages, questions already begin to arise.

D. Liegeois

Edito part 3

For risky assets to continue rising this year, a number of conditions now appear necessary:

- A medical solution was quickly (too quickly, some would say) found against Covid-19 with significant emulation/competition within "Big Pharma". But it is now imperative that the latter becomes a public health response, meaning that a large part of the population is vaccinated to achieve herd immunity. Experts estimate that 60% of the population needs to be immunized in order to break the chains of contamination and ensure that the virus recedes. But in a number of countries such as France, citizens' reluctance towards these new kinds of vaccines or delivery difficulties can considerably slow the pace of vaccination campaigns. Other countries, such as Israel, appear to be far ahead of the question and have already vaccinated more than 10% of their population. This critical mass of 60% is important for the markets. Operators will indeed have their eyes riveted on the harshness of any possible re-containments. The United Kingdom, in the grip of a more virulent variant, has also just put in place for a few weeks a harsher re-lockdown than in spring 2020. If this were to extend to all of Europe in the coming days, this would clearly not be good news for economic activity and consequently for the markets.
- The effective implementation of the budgetary measures planned (or in preparation) in 2020 for 2021 will also be key for the dynamics of economic surprises. If in the United States, the Democrats were to win the Senate, the risk of political blockage would be reduced considerably and the fiscal stimulus program could become even more ambitious. In Europe, it will be necessary to examine the way in which the recovery fund and the trade agreement between the European Union and the United Kingdom will be implemented.
- In the event that the vaccine campaigns succeed in eradicating the Covid-19 threat by 2021, it will finally be necessary to be vigilant about the possible risks of tension on the real rates. On the monetary rate front, the message from central bankers is clear and we are on our toes for a long time to come. Short rates will remain low. But if the exit from the health crisis (and the return to economies that are running at 100%) were to cause more or less strong tensions on long rates, be careful in this case of valuations on the equity markets. Certain sectors (technology in particular) are starting to be well valued and any unexpected increase in the actuarial rate could cause operators to question the high price of the equity markets in general.

2020 will in any case have been for 2PM a year of consolidation of our convictions in terms of management. We came out of this incredible year more confident than ever in the resilience and solidity of our portfolios, as well as in the relevance of our investment philosophy, happy to have been able to keep a cool head last spring, not selling any position, even proceeding to add a little risk to the portfolios at the end of March/ beginning of April. Also we were happy to have designed very geographically diversified portfolios, with in particular good exposure to emerging countries which this year, thanks in particular to the good health of China and Asia in general, have increased by more than 15%, when the Eurostoxx50 has lost 5.14. %. Finally, happy to have made the choice for almost 20 years of "fund picking" vs "stock picking", building portfolios made up of the best global managers, each in their field of expertise, rather than building portfolios of individual stocks, much more volatile and uncertain in terms of performance recurrence.

C. Carrafang