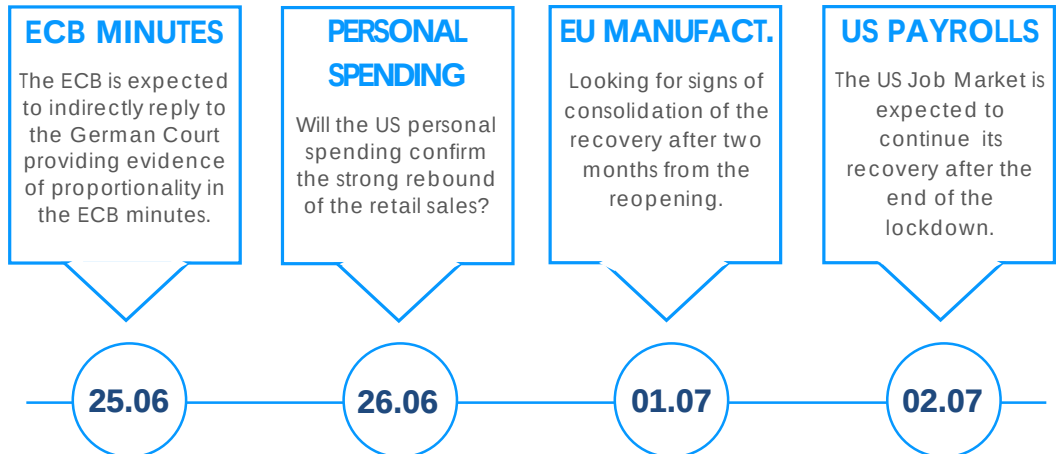


Main Events

Azimut Global Network

- ★ Milan
- ★ Abu Dhabi
- ★ Cairo
- ★ Dubai
- ★ Dublin
- ★ Hong Kong
- ★ Istanbul
- ★ Lugano
- ★ Luxembourg
- ★ Mexico City
- ★ Miami
- ★ Monaco
- ★ Santiago
- ★ São Paulo
- ★ Shanghai
- ★ Singapore
- ★ Sydney
- ★ Taipei

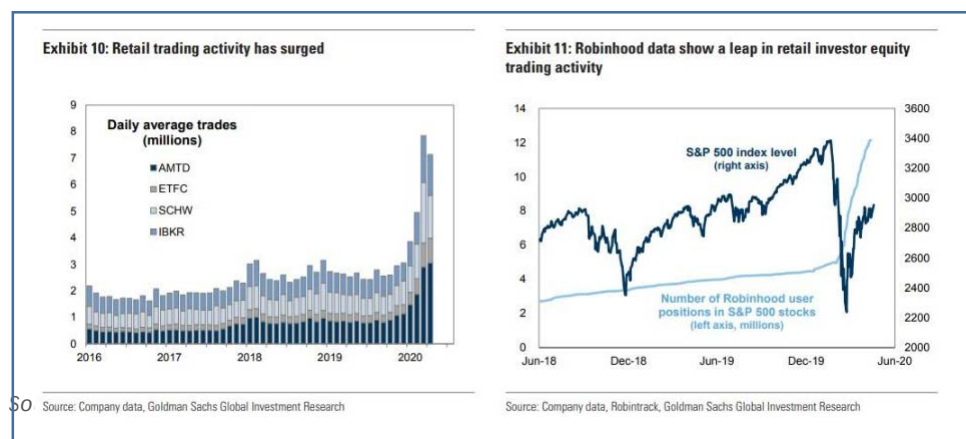


LESSONS LEARNT?

Nowadays, the US markets are more reminiscent of the late '90s. In the previous issue, we spoke about the "new paradigm" used for evaluating shares, i.e.: looking at long term expected earnings potential and not the real numbers coming out each quarters.

If analysts came back to the old habits of inventing a "new paradigm", retail investors discovered once again the thrill of trading. Confined at home due to coronavirus with no sport events to bet on and with some extra money in the pocket from the federal subsidies, which have been perceived as a gift (i.e. the federal government pays extra \$600 unemployment check per week on top of the standard unemployment benefit), many people turned to day-trading as a pastime during lockdown. Thanks to the "buy everything" policy enacted by the Federal Reserve, this hobby proved to be very lucrative for the time being, thus getting more and more people getting addicted to day-trading.

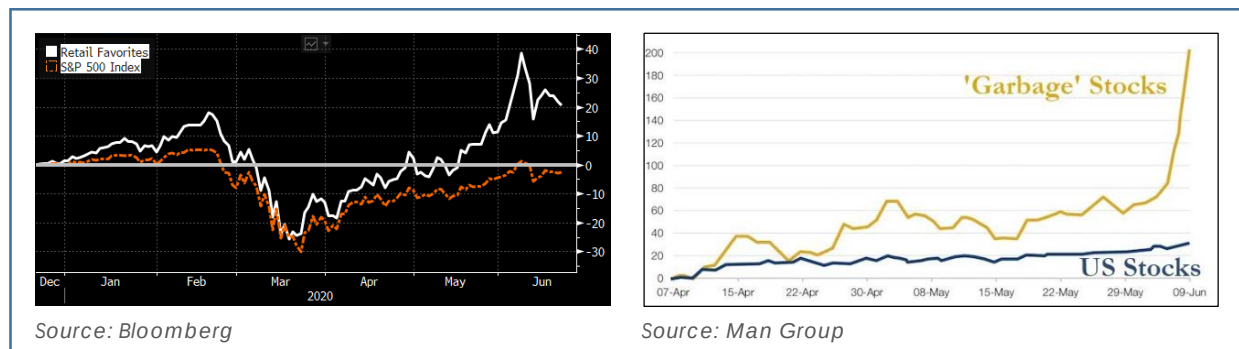
The graph below on the left shows the spike in volumes traded via traditional brokers, whilst the graph on the right shows (light blue line) the explosion of the number of active accounts on the online platform Robinhood, from about 4 million pre-covid-19 to about 13 million.



(continued)

Consistent with what happened 20 years ago, the day-traders are more attracted to small, low quality, illiquid stocks that tend to move more aggressively than large-cap stocks.

The graph on the left below demonstrates the last 6-months' performance of the pool of stocks preferred by retail investors, and on the right the stratospheric outperformance vs. the S&P 500 basket of "garbage stocks" (an equal-weighted portfolio calculated by Man Group of all the listed US companies with a credit default swap of more than 1,000 basis points as of 1 April, 2020), in a two month-period from early April until early June.



Modern day-traders who have grown up in a world where central banks increasingly encouraging the moral hazard of bailing out any single zombie company, have usually targeted stocks either with price in the low single digit cent ("penny stock"), companies active in the sectors more severely affected by the lockdown like travel companies and airlines, or companies offering online services and therefore expected to benefit from the lockdown. Or, sometimes, day-traders just pick stock tickers randomly from a scrabble bag, like the self defined "Daytrading Icon", DavePortnoy (<https://twitter.com/zero hedge/status/1274099642821677057>).

An example of a company propped up by these day-traders is *Genius Brands International* (GNUS US, graph below on the left) which creates, markets and sells children's DVDs, CD music and book. With a Return On Equity (ROE) of -200%, the company loses 2 times the book value each year; the company is worthless and was on the path for bankruptcy before day-traders started piling in the share that as a result rose by more than 3.500% with exploding volumes.

But the most astonishing example of the distortions created by these day-traders is *Hertz Global Holdings* (HTZ), a car rental company that filed for bankruptcy on May 22nd. The stock, that initially traded as low as 40 cents on May 26 started to be massively bought by robinhooders as shown in the right graph below (stock price in red, Robinhood users' purchases in blue). The share price topped 6\$ few days later, a gain of almost +1.500%.



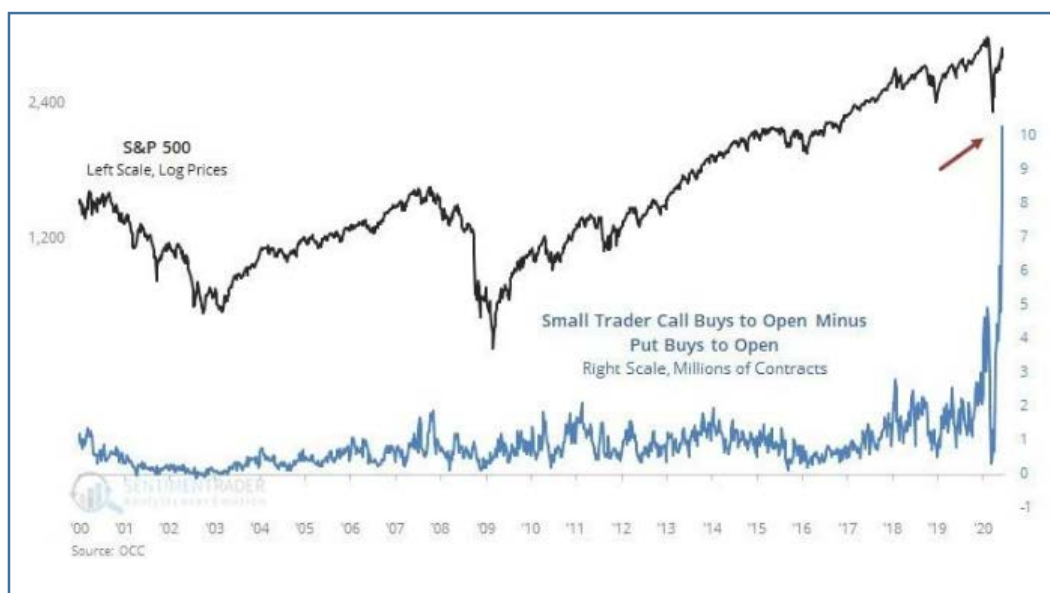
(continued)

Driven by the impressive rally of the stock, and the growing number of day-traders willing to increase their exposure to the bankrupt company, Hertz tried something no one ever dared before: they asked for, and were authorized to do so, sell up to \$1 billion of worthless stock to maniac day traders. This constituted as the first ever "Initial Bankruptcy Offering". While there was a warning disclosed for potential investors that the stocks would become worthless, the bankruptcy judge not preventing the sale and putting less savvy investors at risk added on to the controversy of the news.

The massive liquidity injections combined with the low/negative yields are unfortunately perpetuating overcapacity and keeping zombie companies alive. Unfortunately, if the natural creative destruction cycle could not run its course, if the invisible hand is not allowed to allocate resources in a free and efficient way, if the competition does not take place and not incentivize companies to re-structure and innovate, then the growth rate potential of the economy could only continue to worsen over time.

But the increase of the day-trader folks is not only altering the price of some small-cap stocks, but also impacting the markets as a whole. Most day-traders are growing self-confident, and they are increasingly using complex instruments such as derivatives. Some of them even started utilizing options, including the naked selling, which could lead to unlimited losses (and a maximum, limited gain). How much effective knowledge they have on such financial instruments as well as their inherent risks is unknown.

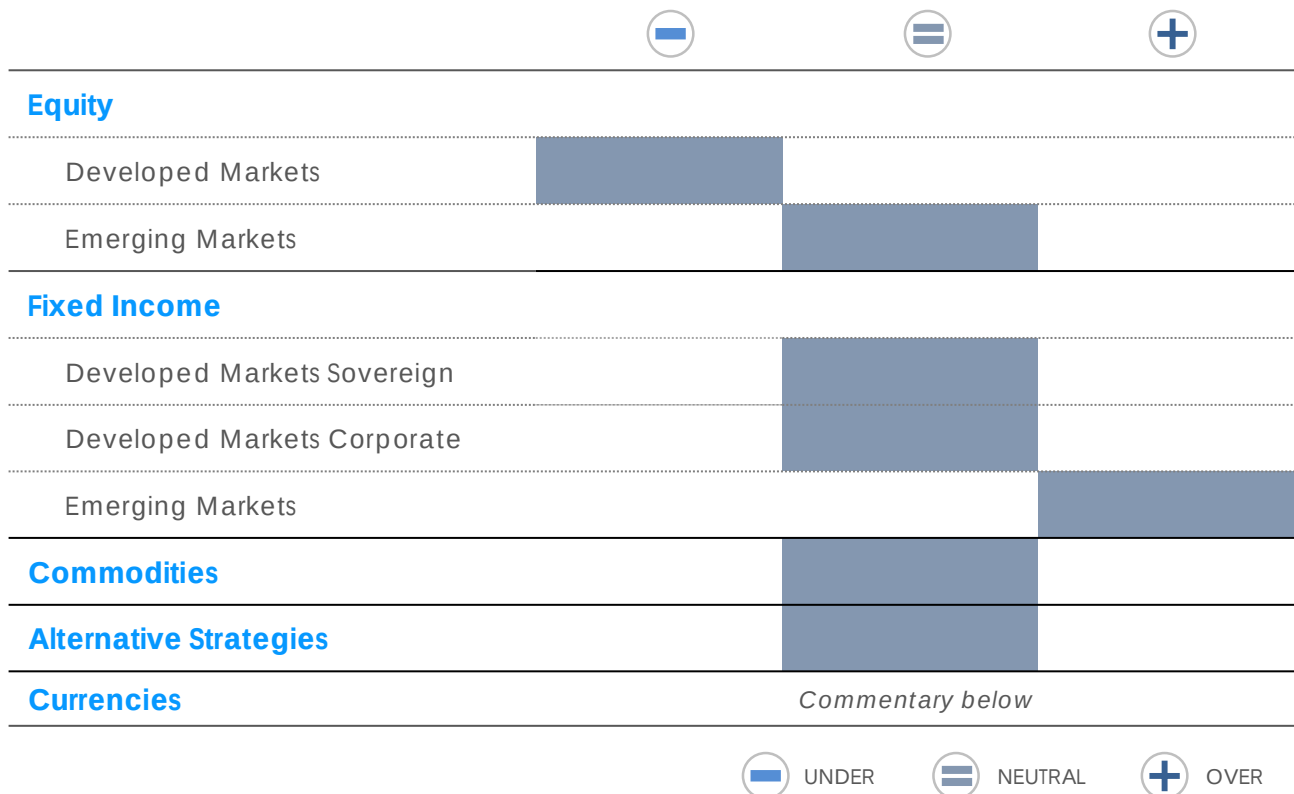
If we look at market data, small traders net position in options (net long call minus net long put) has exploded to the highest level ever, as visible from the blue line in the graph below. The cumulative net long position in options from daytraders is currently double than the level it reached in February, just before the coronavirus started to unravel markets.



Source: OCC

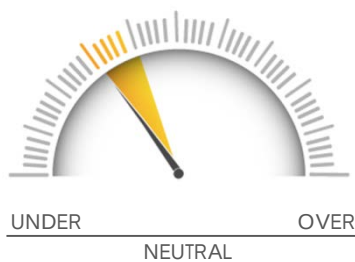
When retail starts approaching to mass financial markets, it has usually been a warning sign of the excess in the markets. Let's see if this time is different.

Asset Allocation View



Equity

Developed Markets



We maintain the overall cautious recommendation. Valuations are at stretched levels measured in terms of fundamentals. The risk/reward profile is currently suboptimal, as the only supportive factors are central banks and governments interventions. A correction may start at any time, considering the overbought conditions. Within developed markets, we still favor European equities because of the approval of the European Recovery fund and of the underweight in the investor's portfolio. For US, we have a more cautious view as the covid-19 cases are starting picking up again and the polls are now projecting an election of Joe Biden, which could lead to higher corporate taxes going forward in US.

US



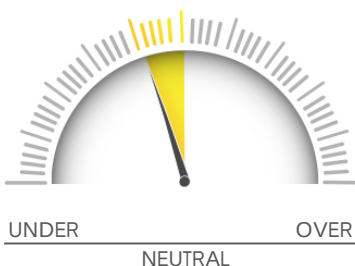
Europe



Japan



Emerging Markets



We keep emerging markets in a slightly underweight position. We maintain a moderate preference for emerging markets as their multiples are well below of those main developed markets. In terms of the geographical area, we are no longer preferring Asia versus Eastern Europe and Latin America, as the rebound in commodities could lead to a recovery in highly cyclical stocks that represent the majority of Russia and Latin American indices. Should the polls confirm a possible election of Joe Biden, that would be a positive for Chinese equities as he could not be willing to pursue the aggressive approach of Trump towards China.

Asia ex-Japan



EEMEA

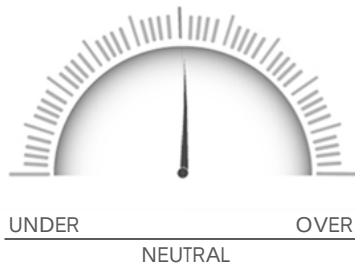


LATAM



Fixed Income

Developed Markets Sovereign



We maintain a neutral view as the ongoing QEs by all the major central banks should keep rates close to the current levels for all markets. Due to the current levels of sovereign yield, there is little value to be found now, but this does not imply that there is downside risk either, at least in the short term. In this environment, a profitable investment strategy could be implementing some steepener in the portfolio. The risk-on attitude in the equity markets could lead to the perception that a recovery is effectively underway and therefore the long-end of the curves could start to move upside.

EU Core



EU Periphery



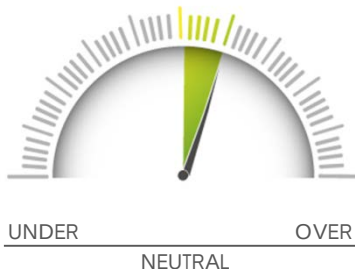
US Treasury



Japanese JGB



Developed Markets Corporate



We keep our overweight stance. Unfortunately as in many other asset classes, the levels reached by the spreads are not particularly attractive anymore. Notwithstanding this, because of the various QEs, investment grade corporates are as protected as sovereign, but offers a slightly higher yield. In the Fixed Income space, investment grade bonds appear to be the best place in terms of risk/reward. We reinforced our underweight stance on EU and US high yields as their spreads contracted too much, also considering the expected increase in the default rate.

IG Europe



IG US



HY Europe



HY US



Emerging Markets



We increased the recommendation on EM bonds to slightly overweight as these bonds did not enjoy the same fast recovery of other segments of the credit markets. They were trailing behind because EM central banks are not doing QE on their bonds, therefore investors have been more cautious in buying those. Considering the low levels of the risk-free, the compression of the spreads in developed market corporates and the rebound of commodities, there is room now for a catch up of emerging bond. Amongst them, we have a strong preference for local currency bonds.

Local Currency



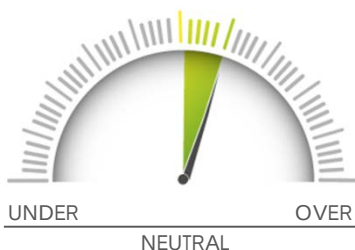
Hard Currency IG



Hard Currency HY



Commodities



We have a neutral stance with a positive bias. We continue to prefer precious metals because of the low yield environment, and as a hedge against unexpected turbulence. For gold in particular, a breakout over 1750 could lead to a short term acceleration. We are neutral on energy commodities after the big rebound of oil, and are still moderately cautious on industrial metals, waiting for a clearer sign that a recovery is underway.

Precious



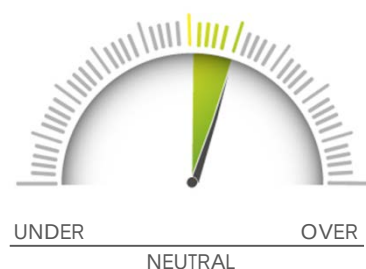
Energy



Industrial



Alternative Strategies



We upgraded our recommendation to neutral on liquid alternative strategies, because of the diminished expected returns on other asset classes. This implies that other asset classes have now higher downside risk and could be vulnerable to volatility as well. Therefore alternative/decorrelated strategies are more attractive on a relative basis.

Low Volatility		Medium Volatility		High Volatility	
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Currencies

We have a slightly positive view on the euro, as the approval of the European recovery fund is not just a sign of more cohesion within EU members, but could be interpreted as the first concrete step towards more integration and stability of the EU. Europe was the biggest underweight position in investor portfolios, therefore there is room for the Euro to remain strong in the short and mid term thanks to the flows of purchases.

We have a slightly negative view on the US dollar because of 1) the expected strength in the euro, 2) the spike in the new cases in US after the reopening, and 3) the rise of Joe Biden in the polls, as he is expected to implement policies which could be less market-friendly than those of Trump.

We maintain our slightly negative view on the Japanese yen, as there are no positive catalysts in sight for the currency.

On emerging markets currencies, we have a constructive view as most of them appear to be undervalued and the yields offered by those currencies are more and more attractive as YTM continues to fall in developed markets.

Euro		USD		Yen		Emerging	
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