



## Overview

The US equity markets were mostly up in July. The S&P's 500 Total Return Index and the Russell Mid Cap Index rose 2.1% and 1.4% respectively. Bucking the trend, the Russell 2000 dropped by 1.3%. Uncertainty in international markets helped the US long bond rally to end the month up 2.3%.

In July European politicians finally found a temporary solution to the Greek debt issue. As a result, most Eurozone markets finished the month firmly up. Elsewhere on the international stage, the gyrations and market manipulation in the Chinese markets together with the expected Iranian nuclear settlement caused oil prices and commodities to collapse. The DJCI was down 10% over the month.

In this mixed and turbulent environment, our diversified portfolios managed to gain from 1.05% to 1.25%. YTD our diversified portfolios are up from 1.75% to 2.85%, net of fees. This compares to a YTD performance of about 2% for a portfolio consisting of 50% S&P's and 50% US Bonds.

Our positive performance this month came as a result of our Eurozone equities and reits positions (up 3% and 6% respectively). These gains more than compensated for our losses in the emerging markets. The chart of the monthly performance of IFEU, a Eurozone Reits ETF, is provided below for illustration.



## Market developments

The Iranian nuclear talks seem to have provided a reason for markets to take oil prices down further by close to 20% in July. This, together with the severe correction of the Chinese markets exacerbated fears of an accentuated economic slowdown in the emerging markets and caused them to swoon.

The chart below is that of the DJCI, a broad commodity index:



The ETF tracking this index lost a little over 10% in July. That caused emerging markets in general to correct to the downside, as illustrated below:



Illustrated above are two emerging market ETFs. One (orange) tracks a broad index; the other (blue) tracks a smaller "frontier" market index. Both went down by about 6% in July.

It is difficult to say whether the commodities slump is overdone or not. There are real concerns of excess supply and tepid demand in the oil market and of a significant Chinese slowdown, both pushing commodity prices down. If this trend persists, emerging markets will continue to suffer.

Additionally, the incoming interest rate policy shift from the FED, its speed and intensity, are causing investor anxiety and may be justifying large asset reallocations among institutional investors. In a slower summer market, these movements are likely to amplify price fluctuations. Another reason to keep one's head cool.

## Tilts and Allocations

At the beginning of July we first reduced our European equity positions, awaiting the results of the Greek negotiations. We swiftly reestablished them as an arrangement was agreed. Additionally, we further increased our long USD positions.

Both moves proved positive. The USD long position went up 1% and our European equities were up another 3%. We kept our European Reit position unchanged and that helped us significantly, (+6%).

On the negative side, we were penalized by our allocations to emerging markets. In spite of the unfavorable environment, we decided to leave these allocations unchanged overall and to modify only our sector selection and started reducing our broad emerging market position in VWO in favor of ECON, an emerging market ETF invested in consumer stocks.

The rationale for this is that there is a tremendous amount of uncertainty associated with the contradictory policies of the FED (soon to be more restrictive) and those of other central banks (still favoring loose policies). This is causing market movements that are difficult to evaluate, anticipate and position for. In this context, not moving or moving carefully as we did with our "intra-emerging market" substitution, is often the best policy.

Our small exposure to the emerging market sector should limit our downside should we be wrong. Should we be right, the upside might be significant since most indices in the sector are at their long-term lows or very near them, as illustrated below:



This five-year chart of VWO indicates how tantalizingly close this ETF stands from the levels that have seen it bounce back from repeatedly since 2011.

## Concluding remarks

I indicated last month that we were, as investors, in a complicated market environment.

Diverging monetary policies between vast economic blocks are both a source of investment opportunities and of unexpected investment flows, to and from asset classes and within each asset class.

In this environment of heightened uncertainty our portfolios are broadly diversified, both geographically and by asset classes. Additionally, we reduced our overall equity positions at the beginning of the year and refrained from increasing them since.

In that context, we should be able to take advantage of a serious market dislocation, should it occur, possibly around the timing of the first FED tightening move in the Fall.

All the best,