

OUT OF THE BLUE !

Letter to investors

February 2020

DIE ANOTHER DAY

Santa Claus did not put a lump of coal in our stockings last year, quite the reverse. Unlike 2018, the stock markets ended a very positive year on a high note and, unusually, this coincided with a strong bond market as well. 2020 then started with fireworks, first those fired between the USA and Iran and then those from the market, which appeared to be scarcely impressed at all by these worrying war scenarios, which were already forgotten after a few hours. Not even a classically unpredictable and unquantifiable exogenous event like the Corona virus could succeed in restraining the unstoppable appetite for risk that has predominated for many months. The correction lasted no longer than the blink of an eye. Despite thousands of infected people and hundreds of deaths (in a third of the time compared to what happened with SARS), millions of quarantined people, factories at a stand-still, shuttered shops, an important country like China completely isolated, investors quickly wanted to look to the future. Sooner or later, the disease would slow down and everything would be back to normal. Although, at BlueStar, we have been expecting a correction for some time, we are surprised that it did not last longer. We therefore believe it is too early to declare that there has been a "narrow escape", especially with regard to the global economic effects of this virus. But neither can we just hide our heads in the sand and minimize the positive market reaction, especially in the light of the sharp rise in the macro data (admittedly from the pre-virus period). Meanwhile, the monetary authorities continue to distribute liquidity in a generous way, including the Fed, with its "QE-Non QE" policy, in place since the fall, and China, which is flooding the financial system with money to counteract the sudden shock. All this reminds us very much of the 1997-1999 period, years that have particularly remained in the memory of the people who did not want to believe it and, by shouting too early about the risk of a bubble, lost out on one of the most powerful rallies in history. Apart from other unpredictable exogenous shocks and a "second leg" to the correction, more than possible in the light of more reasoned analysis on the effects of the Corona virus, we see little chance of a definitive stop to this bull market, which, virus or no virus, still refuses to die. Not today, at any rate.

Market	January 2020	Year to Date 2020
Bloomberg Barclays Euro Aggr. Bond Index	+2.0%	+2.0%
Bloomberg Barclays US Aggregate Bond Index	+1.9%	+1.9%
S&P 500 Index	-0.0%	-0.0%
Stoxx Europe 600 Index	-1.2%	-1.2%
MSCI Asia Pacific Index	-2.9%	-2.9%
Bloomberg Commodity Index	-7.5%	-7.5%



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