

OUT OF THE BLUE !

Letter to investors

April 2020

WONDERWALL

“Surreal” is the best word to describe the situation that we've been experiencing for almost two months. Deep anxiety and uncertainty about the future are accompanying us. Therefore, it's no surprise that in very few days, the markets have undergone historic corrections, especially in the stock and bond markets. The only defense has come from high-quality government bonds, gold and a very select group of risk-off currencies. The crisis has gone rapidly through three stages until now. The first one involved China in January, but barely left a scratch on the market's optimism. At the time, BlueStar proved to be very skeptical about such complacency, and therefore, we could enter the second stage prudently. During this stage, the health crisis unpredictably (even for us) moved to Europe with the forcefulness of a horror movie. Ultimately, as we feared, and in spite of the initial scepticism of the American administration, the eye of the pandemic storm moved to the United States, which in a few days became the country with the most confirmed cases in the world. Now, in the last few weeks the world has been undergoing a lockdown, unprecedented even in wartime, which is affecting both the supply of goods and services and the demand for them at the same time. The macroeconomic impact, at least in the short term, will be devastating. A worldwide recession is already fully underway. At this point, according to BlueStar, there are more unknown factors than certainties. Too many for us to consider the market rally of recent weeks, arising from relief at the attainment of a peak in the contagion curve and the possibility of activity resuming, to be sustainable. In fact, we fear that once the acute phase of the pandemic is over, we will enter the chronic one. To find a balance between health costs and financial costs won't be easy. In economic terms, the worst may not even have arrived yet. Certainly, thanks to massive fiscal and monetary intervention, we have hopefully avoided the possibility of a depression and a financial crisis. Therefore, we don't feel like joining the ultra-bears gurus predicting an apocalypse. At the same time, however, an instant restart scenario capable of achieving an almost complete recovery in just a few weeks seems to us to be a full-blown fantasy. The market seems to have already found a cure to the disease. Rather than climbing over a “wall of worry”, the market seems to us to have wed itself to a “wall of hope”.

Market	March 2020	Year to Date 2020
Bloomberg Barclays Euro Aggr. Bond Index	-3.4%	-1.1%
Bloomberg Barclays US Aggregate Bond Index	-3.5%	-3.4%
S&P 500 Index	-12.4%	-19.6%
Stoxx Europe 600 Index	-14.5%	-22.5%
MSCI Asia Pacific Index	-11.5%	-19.2%
Bloomberg Commodity Index	-24.0%	-23.5%



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