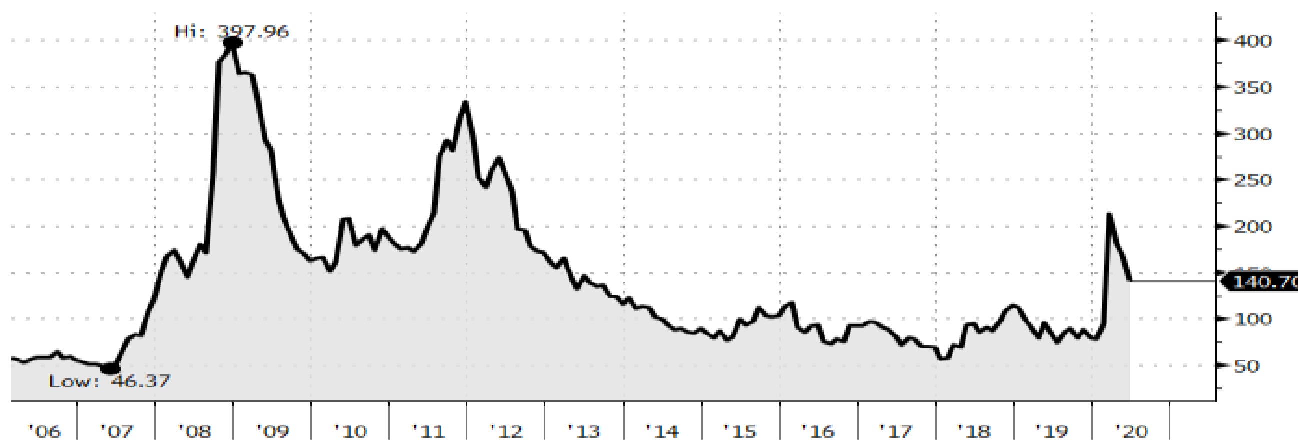
June was another very volatile month with markets torn between positive indicators on economies reopening and signs the Covid-19 pandemic was spreading across the globe. Brazil, India, Mexico and Russia saw worrying rises in cases as did US states like Texas, Florida, California and Arizona. Even so, risk appetite improved over the month. Markets rose, credit spreads narrowed and oil prices rallied. The Dow Jones gained 1.69%, the S&P500 1.84% and the Nasdaq 5.99%. In Europe, the STOXX 600 ended the month 2.8% higher and the CAC 40 5.1% better. Asia was similarly upbeat with the Nikkei gaining 1.9%, Shanghai 4.6% and the Hang Seng 6.4%.

Spread BBB 4Y EURO as of 06/30/2020



Nevertheless, over the first half of 2020, the most serious peace-time recession ever resulted in mostly negative returns (and some impressive swings with the Dow Jones rallying by 38.8% between the March 23 low of 18,591 and the June 30 close of 25,812). Only the Nasdaq (+12%), the gold ounce (+18.2%) and government bonds with maturities over 15 years (+5.4%) ended the half-year in positive territory. The situation would have been much worse if central banks had not orchestrated gigantic monetary creation. Governments, too, played a big part by boosting spending to save companies and underpin jobs as the lockdown brought activity to a halt. **Only this worldwide rescue has so far helped stave off a depression.** Financial markets also played a key role, linking central bank action to commercial banks and companies and maintaining financing circuits. The surge in new bond issues was a good illustration.

Now, as we begin the second half, there are two important questions.
First, what shape will the recovery take? What we are currently witnessing is an automatic recovery after a sudden stop. To continue, it will need economic agents to feel confident enough to spend and invest rather than save. And that will require governments not to interrupt stimulus too early and central banks to pursue accommodating monetary policies. Jerome Powell at the Fed and the ECB's Christine Lagarde have repeatedly said policy will not change so there is little doubt on that score. Both know that with massive bankruptcies on the horizon, rising unemployment and falling prices due to overcapacity in many sectors like autos and aerospace, the risk of depression has not gone away.
Next, how sustainable is government debt? The main issue in coming years will be how to finance colossal government debt over the long term. Japan's recent history should serve as a benchmark. Government debt can be sustainable *ad infinitum* in an economy with a credible currency like the US dollar, the euro or the Japanese yen, provided 3 conditions are met: (i) the average nominal interest on the debt must be close to zero, (ii) inflation must remain low and (iii) real growth must be positive over the long term. In the eurozone, there is a 4th condition, namely that bond spreads between the 19 member states must be as narrow as possible, a "Japanisation" of bond markets which also requires recent moves in favour of debt mutualisation by some eurozone countries, the European Commission and the ECB to be crowned with success. Germany's recent support for this scenario is essential. Just before Angela Merkel took over the rotating presidency of the EU on July 1st, she said it was in Germany's interest to stop the European Union collapsing. "What is good for Europe is good for us".
The European Stability Mechanism, future close cooperation with the ECB which manages the PEPP, German support for the €750bn stimulus plan and the introduction of a European budget led by Ursula von der Leyer will all make it much easier to manage eurozone government debt. Above all, these factors will preserve the eurozone itself by keeping Italy in but also other heavily indebted southern European countries, including France. Austria's successful launch on June 24 of a 100-year bond at 0.85% is a perfect illustration of this strategy. Even so, some growth will be needed to make this work. The future

European budget will act as a driver by focusing on areas like innovation, digitalisation, the environment and the climate revolution.

To sum up, the pandemic could still affect this scenario, but investors now realise that pro-actively dealing with the crisis is the only sustainable approach. Second quarter earnings are expected to plummet 42.4% in the US while first quarter earnings tumbled 38.2% in Europe. Bankruptcies could well hit record levels. Nevertheless, looking beyond short-term volatility due to uncertainty over the recovery's shape, we expect financial markets in the second half of 2020 to consolidate the recent rally. **Selectivity will remain the key word for investors in the second half, especially with the US elections on November 3.**

NAV OF THE FUNDS

			Cumulated Performances							
NAV Date	UCITS	NAV	% 1 Week	%1 Month	%3 Months	%YTD	%1 Year	%2 Years	%3 Years	%5 Years
30/06/2020	HUGAU MONETERME I	120 333,11	+0,01	+0,08	+0,03	**-0,38**	- **0,40**	- **0,46**	- **0,58**	**0,12**
30/06/2020	HUGAU OBLI 1-3 I	1 348,18	+0,05	+0,55	+2,55	**-3,25**	- **2,72**	- **2,14**	- **3,01**	**0,11**

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