CREATERRA
FINANCE

Panta Rhei
Nothing is permanent except change

"You have to vote with your mind, not with your gut."
Jacques Chirac (1932-2019), French statesman. He was the 22nd President of the French Republic, from 1995 to 2007.

Desired management policy and clients' expectations

Charles BOK
Chief Executive Officer

Dear clients, friends and readers,

I would like to share with you a few aspects of our wealth management approach, and in particular how we take into consideration each client's specific expectations.

Before embarking on the day-to-day management of the portfolios entrusted to us, we believe it is essential to understand exactly what each client expects from management and to take stock of their preferences, their personal and family expectations as well as their past investment experience.
Once we are happy we have understood all these aspects – in as much detail as possible – we determine not only each client's risk profile but also their investor personality.
From the outset, we know from experience that expectations can change in line with personal circumstances or when events occur such as a planned property purchase, the receipt of an inheritance, the sale of a company, retirement, etc..
A sound understanding of each client's specific requirements helps us to define an ideal asset allocation – i.e. how to distribute portfolios between the various asset classes.
Together with the client we set the minimum and maximum exposure limits for each class (equities, bonds, alternative products, commodities, etc.).

Our reading of the economic environment and our own expectations as regards the financial markets sometimes lead us to take exposure at the minimum or maximum levels that we have set.
And that is often a trickier business than appearances suggest.
How can we adapt our portfolios to our analyses and our view of the markets without taking opposing positions to our clients – and most importantly worrying them?
We look for the best trade-offs that will keep both parties (client and manager) as happy as possible.

I am attached to a rather common example: most high net worth individuals have significant faith in property investment, to such an extent that they remain indifferent to any downward correction of the market.
Such serenity is undoubtedly attributable to the regularity of the rent they receive and the belief that the value of their property assets will increase inexorably over time.
We also see the same favourable preconception with regard to bonds, as clients have a deep confidence that they will be paid back at maturity.
This does not generally apply to equity investments. A temporary slump in the stock markets often prompts anxiety.
History has shown that market corrections very often represent an opportunity to buy cheaply – subject to being a little patient.
Most clients are not « naturally » patient, nor entirely trustful of this asset class.
It is our job to take this into account and converse constantly with our clients, while systematically putting their preferences first.
Not a simple task, but fortunately not only do we love our clients, we also love our job!

I wish you happy holidays and an excellent summer.

In this edition:

Economy - Markets - Strategy : trends

Fabien PLANCQ
Senior Wealth Manager
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Chief Executive Officer

The second quarter of the year was once again marked by the monetary policy of the major central banks. As the weeks went by, investors lowered their expectations of intervention by these institutions, slowing the markets' ascent.

As expected, the European Central Bank (ECB) was the first major central bank to cut its rates. In response to the slowdown in inflation of recent months, on 6 June it reduced its key rate by 0.25%. This was the first rate cut in the eurozone for nearly five years, the previous one dating back to September 2019. It saw the deposit facility rate fall from 4% to 3.75%. The ECB nevertheless remains cautious concerning the future, having slightly raised its inflation predictions to reflect recent wage rises.

On the other side of the Atlantic, in mid-June the US Federal Reserve (Fed) left its key interbank interest rate unchanged at 5.5%, as was widely expected. The Fed's members also adjusted their forecasts: they now expect only one rate cut this year, of 0.25%, compared with the three initially billed in March. These new forecasts from the Fed show that it is now expecting inflation to be higher this year than previously thought. Growth should remain robust thanks to consumption and investment in artificial intelligence. So investors are going to have to be patient to enjoy more accommodating financial conditions.

On the European political front, Emmanuel Macron's surprise dissolution of the French parliament following the comfortable victory of the Rassemblement national (RN) party in the European elections on 9 June sent a shock wave through the country. Deemed a risky bet, this decision led to early legislative elections on 30 June and 7 July that could potentially put in power a prime minister from Marine Le Pen's party. This triggered a sell-off in French financial markets, reflecting the fact that if RN won and implemented its programme, banks, construction companies and materials suppliers as well as utilities would be the most affected. French and European defence stocks could also be punished. The turmoil in France also made other European markets more jittery, and investors in Europe are therefore keenly awaiting the final results of the early-July elections, but worried at the same time. The first round seems to signal a clear victory for RN but one without an absolute parliamentary majority, which has temporarily reassured European markets.

As regards commodities, gold continued to climb in the second quarter of 2024, and has put on 12.8% since 1 January. Oil, meanwhile, fell slightly over the past quarter but remains up over the year (+13.8%). On the currency front, the dollar remains strong, having gained 3.1% over the first six months of the year.

Recommended asset allocation for a MEDIUM risk investor in EUR

Asset allocation		Currency exposure	
Total individual equities and equity funds (including real estate)	**46%**	**EUR**	**85%**
European equities	22%	**USD**	**12%**
US equities	21%	**Other**	**3%**
Emerging market and Japanese equities	3%		
Bonds and bond funds	**40%**		
AIFs	**4%**		
Miscellaneous (gold and other commodities)	**4%**		
Cash and money market funds	**6%**		
	100 %		**100 %**

Guidelines for our in-house policy. For many reasons, differences, sometimes substantial, may exist between different portfolios.
Drafting closed on 01/07/2024

Indexes

EQUITIES	2024 Q2	2024 YTD
EURO STOXX 50	-3,73%	8,24%
STOXX Europe 600	-0,24%	6,77%
S&P 500 (New York)	3,92%	14,48%
NASDAQ 100 (New York)	7,82%	16,98%
MSCI Emerging Markets	4,13%	6,11%

COMMODITIES (IN USD)	Gold	Oil (WTI)	Bloomberg Agriculture
As at 31/12/23	2.062,98	71,65	62,46
As at 30/06/24	2.326,75	81,54	56,99
%	12,79%	13,80%	-8,76%

Investment school : A Healthy Dose of Risk : A Winning Bet in the Long Run

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NAVIGATING STOCK-MARKET FLUCTUATIONS

Stock markets are often like roller coasters. From ups to downs and prosperity to crises, they make less seasoned investors tremble. For example, an investment of €10,000 in 2004 would have grown to more than €14,000 in 2007, before falling to less than €9,000 the following year[1]. These uncertainties may have already tempered your investment decisions, prompting you to opt for safer investments such as government bonds. However, **by applying best practices, an equity portfolio turns out to be much more profitable in the long run, despite having higher volatility.**

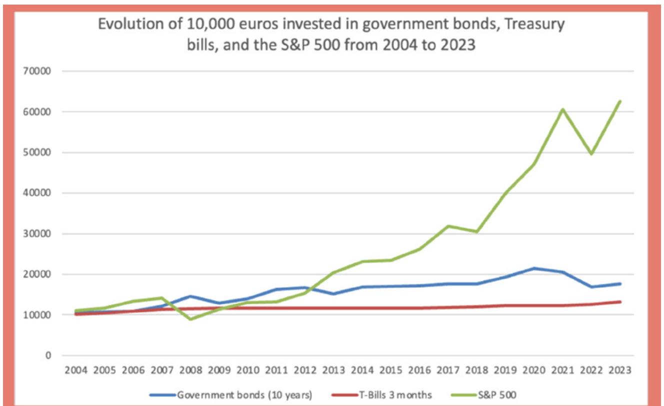
EQUITIES: SUPERIOR YIELDS IN THE LONG RUN

« One might have thought that it is easier to forecast into the near future than into the distant future, but the data contradict such intuition. » – Robert Schiller, Nobel Prize in Economics, 2013

To illustrate this point, consider three types of assets: short-term (three months) government bonds, which have very low risk but low yields; 10-year government bonds, offering higher yields, and the equity portfolio of an S&P 500 index fund, representing the 500 largest US companies.

For an investment of €10,000 in various assets in 2004, for example, the yields of the S&P 500 fluctuate around those of more stable bonds and government bonds (Figure 1). However, with a bit more patience, from 2012 onwards, the return on the diversified equity portfolio significantly outperforms that of safer assets, **illustrating the superiority of diversified equity portfolios in the long term, despite their initial volatility.**

Figure 1 – Graph representing the difference in return on €10,000 invested in 2004 in three types of assets on a historical basis until 2023



If you invest 10,000 euros in an S&P 500-type index fund, the value in 2023 will be 62,550 euros, compared with 13,210 euros for Treasury bills and 17,560 euros for government bonds. Interest is reinvested, and transaction and management costs are excluded.

Source: Damodaran, A. (2024)

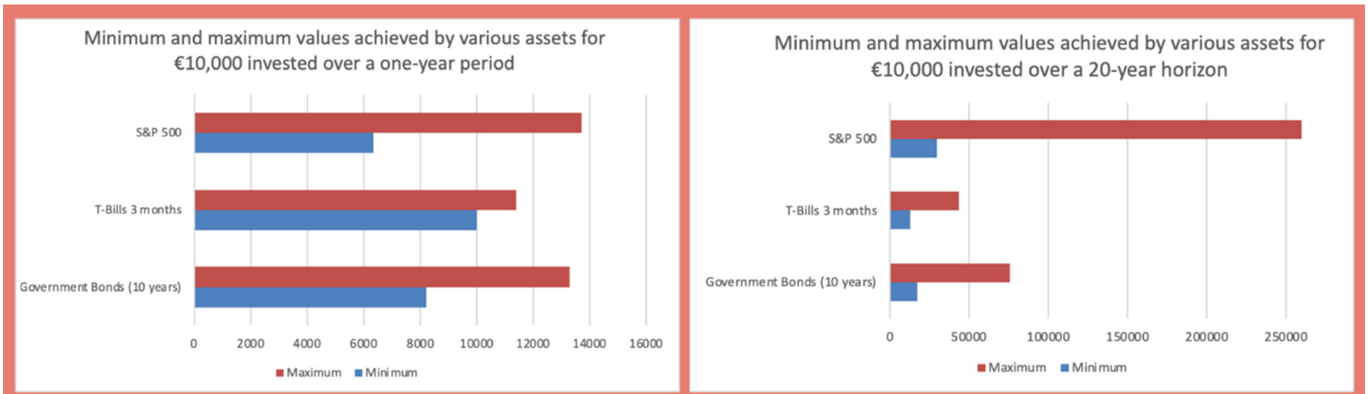
1 Data on S&P 500 returns from the Damodaran database. Damodaran, A. (2024). *Historical Returns on Stocks, Bonds and Bills: 1928-2023.* https://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/histretSP.html

Equity gains are significantly higher in the long term, with few exceptions, such as in 1989, when an investment of €10,000 over 20 years yielded « only » €50,000, a return similar to a government bond.

This « anomaly » is explained by the bursting of the Internet bubble in 2000 and the financial crisis of 2008. The investment period plays a crucial role, underlining the importance of time diversification to mitigate the risks of successive crises which, though rare, are significant.

Unfortunately, we can't have our cake and eat it, too. Equities, which are subject to high volatility, have lower minimum returns in the short term than safer assets. However, their maximum returns are much higher. Meanwhile, over the long term, even the minimum return on equities exceeds that of government bonds (Figure 2).

Figure 2 – Graphs representing the minimum and maximum values of €10,000 invested at horizons of one year and 20 years for three different types of assets on a historical basis from 1970 to 2023



Source : Damodaran, A. (2024)

CONCLUSION

In conclusion, investing in an equity portfolio offers higher yields than government bonds over the long term, despite the high volatility of the markets. Thus, risky assets should not always be avoided, provided that the underlying risks are mitigated by rigorously applying the principles of **asset diversification** and **time diversification**. In short, don't be afraid to spice up your finances as long as you know how to find the right balance!

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