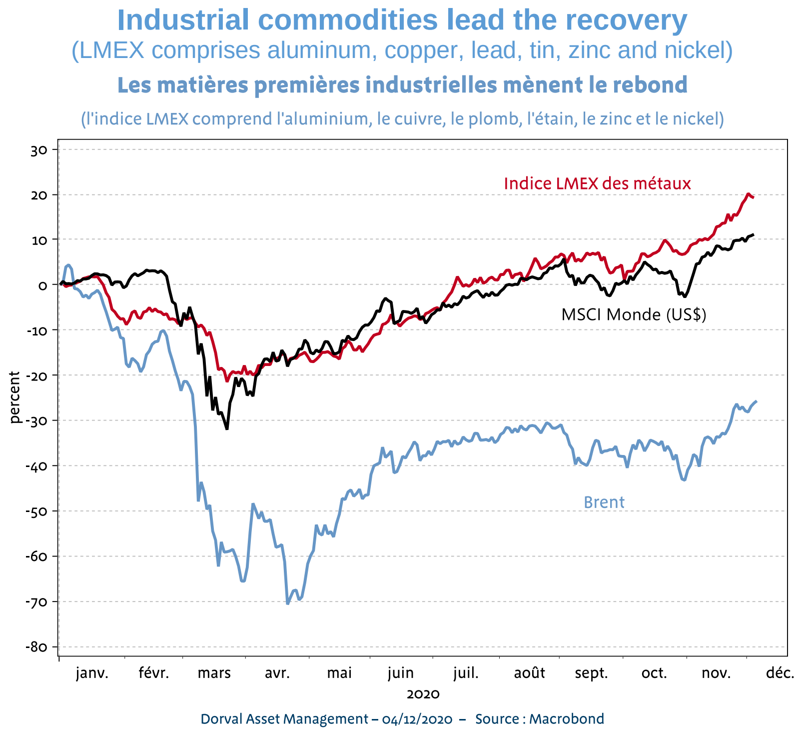
Exposure rates of the Dorval Asset Management Range – 4th December 2020

Dear Clients and Partners,

The latest projections from the OECD indicate that world GDP will not revisit end-2019 levels until 2022, but world stock-markets have already almost made it back to their pre-Covid levels – with some indices even overshooting that figure. Meanwhile even more surprisingly, the LMEX, which covers the main industrial commodities, is already 20% above its end-2019 point (cf. chart 1), with copper particularly standing out with a jump of 24% YTD.



- *LMEX metals index / MSCI World (US$) / Brent*

We can well understand that equity investors are somewhat bypassing the impact of lockdown and legitimate questions on the organization for future vaccination campaigns, and are looking straight ahead to the acceleration in world growth in 2021. Some markets, such as the Bitcoin (cf. chart 2), are also demonstrating some fairly unreal euphoria. However the balance of physical supply and demand on the commodities markets still plays a much more decisive role, which we can see on oil for example, where prices are still 30% short of figures witnessed at the start of the year.

Are these the first signs of euphoria?

Premiers signes d'euphorie ?

Dorval Asset Management – 04/12/2020 – Source : Macrobond

- *Bitcoin prices in USD*

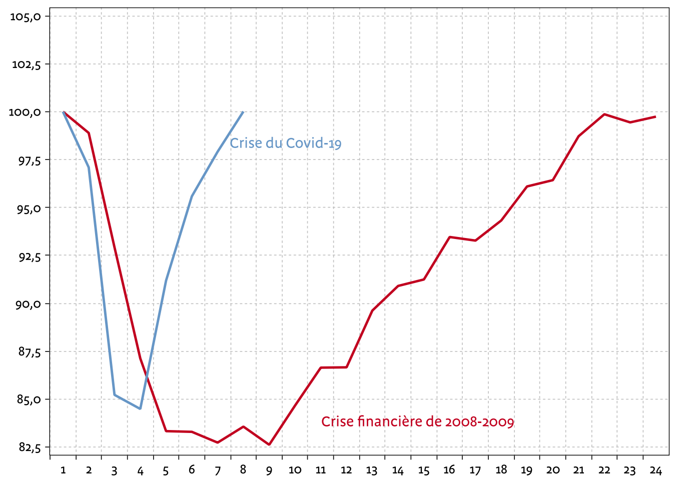
All evidence seems to indicate that the rise in industrial metals prices is driven by very real factors: the services sector admittedly remains sluggish due to lockdown, but the manufactured goods business is booming, as shown by the sharp rebound in world trade (cf. chart 3). China is playing a crucial role in this recovery as the country is the main consumer of industrial commodities and now boasts a very robust economy after getting the pandemic under control.

Swift rebound in world trade

(world trade in volume terms, 100 = February 2020 and September 2008)

Rebond rapide du commerce mondial

(commerce mondial en volume, 100=février 2020 et septembre 2008)



Dorval Asset Management – 04/12/2020 – Source : Macrobond

- *Covid-19 crisis / 2008-2009 financial crisis*

However, sources of commodities demand are diversifying, particularly with the influence of major energy transition programs that are currently under way as well as plans expected for the future. All eyes are on the Green New Deals – whether the program already announced in Europe or the strategy likely being prepared in the United States from January. Ironically this energy transition requires a great deal of metal, particularly copper, and including from rare-earth sources. For example, a fully electric vehicle uses four times more copper than a conventional car, while renewable energy – and especially wind power – uses a huge amount of copper for each megawatt generated.

Overall, we can see that the swift recovery in the manufacturing sector and in construction is putting pressure on metal demand right when stimulus plans are focusing on the energy transition. Investment in new production capacity has been dwindling for the past several years, so it is hardly surprising that industrial commodities prices have become the adjustment variable.

We have taken this situation on board in our international portfolios by gradually reducing our basket devoted to the construction theme (some companies in the sector could be hit by rising costs) and focusing more on a basket of stocks (and currencies) that are buoyed by this uptrend on commodities prices.

Our exposure rates are as follows:

- **Dorval Convictions**: Our exposure rate is 99%.

DORVAL ASSET MANAGEMENT

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BUT CAMELEON

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