Forum Finance Group
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Monthly Newsletter

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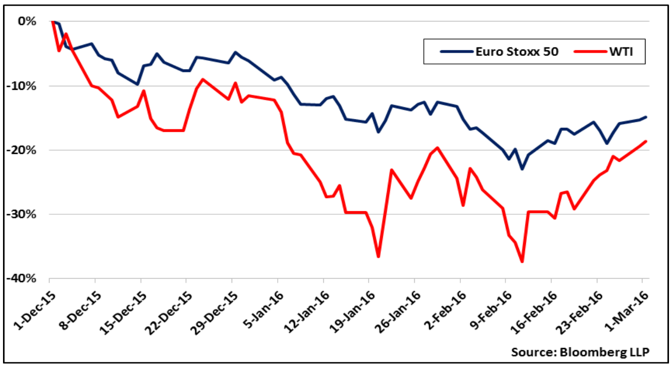
Investment Perspective

Global equity markets fell for a third month but ended well above the mid-February lows. Market sentiment gradually improved on signs that financial tensions in China were abating and on better price trends for commodities. This was best illustrated by the 29% rebound of oil prices from February 11 onwards, following the severe decline observed since the start of the year. Nevertheless, assets deemed the safest performed the best and included German bunds, whose 10-year yield collapsed to 11bps, as well as gold which appreciated by 11% to reach $1'239 an ounce.

In relative terms, emerging markets performed well on the back of a more stable yuan and a 0.5% cut of China's required reserve ratio; these elements brought some reassurance to investors about the objectives of the Chinese authorities and also contributed to boost the value of emerging market assets. Risk assets also started to benefit from a less negative outlook on the US economy as a series of data have beaten expectations and shown the resilience of US consumers.

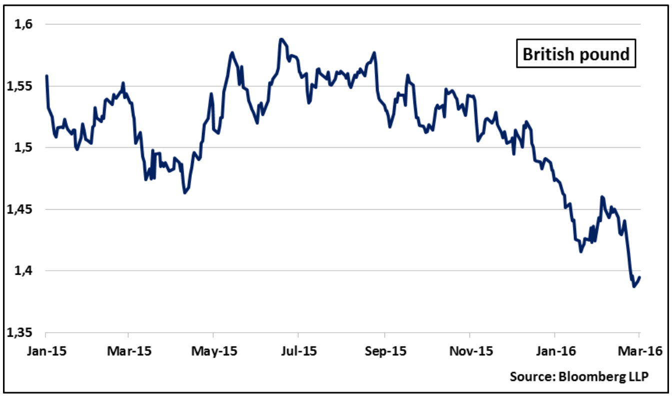
Despite a lesser level of confidence in the capacity of central banks to continue supporting financial assets, investors will now focus on the upcoming meeting of the ECB. On the back of weak inflation data and sluggish growth, a further 10 basis-point cut in the deposit rate has already been priced in, while an extension of its bond-purchase program could also well be announced.

The high correlation between oil and equities



The chart above shows the strong correlation between the prices of oil and equities this year. This trend is in contrast to the longer term relation between both types of assets and reflects concerns about lower demand due to weaker economic activity. The rebound of oil prices during the second part of February contributed to an improved market sentiment and higher equity prices.

The pound is under severe pressure



The British pound has been sliding since the middle of 2015, but the pace of losses has recently accelerated, resulting into a 5.6% drop against the dollar this year. Sterling plunged 3.8% during the last week of February after it was confirmed that the referendum on Britain's EU membership would take place on June 23. In addition to the risks of a Brexit, weaker economic data has meant that the BOE has adopted a more dovish stance.

Key Data

- China's exports dropped by 11.2% in January, compared to expectations for a 1.8% drop; imports contracted by a more than expected 18.8%.

- China's Manufacturing PMI dropped to 49 in February, below market expectations of 49.4.

- Economic sentiment in the Euro-Zone deteriorated in February (ZEW survey at 13.6 compared to 22.7 for January). The PMI Composite number at 52.7 was below market expectations of 53.3 and a January level of 53.6.

- In Germany, economic sentiment (ZEW survey) declined in February (52.3 vs. 59.7 in January). The IFO Business Climate indicator also declined to a level of 105.7 (107.3 in January).

- US payrolls in the private sector increased by 230K in February (forecast of 190K), with January numbers being revised upwards from 158K to 182K.

- US durable goods orders ex-Transportation increased by 1.8% in January, compared to a 0.3% forecast.

- US consumer confidence declined in February to a level of 92.2, well below market forecasts of 97.2.

- Annualized US 4Q GDP growth was revised upwards from 0.7% to 1%, due to the impact of inventories.

- The Chicago PMI dropped to 47.6 in February, compared to a 52.5 forecast and 55.6 in January.

Investment Strategy

During February, it was mostly a matter of sitting tight and waiting for some of the pessimism weighing on risk assets to lift. Over the course of the past weeks, there have been a number of positive developments which contributed to improve market sentiment and boost the prices of assets to which we are exposed. Recent US economic data has been encouraging, central banks are expected to do more, while concerns about China and oil prices have been receding.

We continue to hold an above-average level of cash, which has allowed us to contain some of the recent volatility and which leaves us in a good position to take on a more dynamic asset allocation at the appropriate moment. We are continuing to focus on less directional strategies such as Global Macro, CTA and volatility arbitrage as well as on asset classes whose profile has become more attractive in the wake of the recent market turmoil; the latter include ex G-7 sovereign investment-grade, European high yield bonds and loans.

Portfolio Activity/News

February was a quintessential month of two halves for the portfolios as they managed to recover most of the early losses to end virtually unchanged. We did not introduce any allocation changes to the main asset classes, but we did take advantage of the rally of the price of gold to sell both our exposures to physical gold and to gold mining equities.

Since the beginning of the year, gold has fully justified its role as a safe haven asset and its price has been supported by lower bond yields, market stress and a below-average level of portfolio exposure. The strong rebound of gold mining equities since January also incited us to take some profit on the basis of our expectations for a consolidation of the gold price following its rise to above $1'200 an ounce.

	End 2015	January 2016	February 2016	MTD	2016
Equities					
S&P 500	2043.9	1940.2	1932.2	- 0.4%	- 5.5%
Euro Stoxx 50	3267.5	3045.1	2945.8	- 3.3%	- 9.8%
MSCI EM	794.1	742.4	740.3	- 0.3%	- 6.8%
Yields					
UST 10-year	2.27%	1.92%	1.74%	- 18bps	- 53bps
Bund 10-year	0.63%	0.32%	0.11%	- 21bps	- 52bps
BBB EU	1.75%	1.59%	1.52%	- 7bps	- 23bps
Currencies					
EUR/USD	1.086	1.083	1.087	+ 0.4%	+ 0.1%
USD/CHF	1.002	1.023	0.998	- 2.4%	- 0.4%
EUR/CHF	1.088	1.108	1.086	- 2.0%	- 0.2%
GBP/USD	1.474	1.424	1.392	- 2.3%	- 5.6%
Commodities					
CRB Index	176.1	166.8	163.2	- 2.1%	- 7.3%
Oil, WTI	$ 37.0	$ 33.6	$ 33.8	+ 0.4%	- 8.6%
Gold	$ 1061	$ 1118	$ 1239	+ 10.8%	+ 16.8%