FFG
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MONTHLY NEWSLETTER

May 2017

KEY ECONOMIC DATA PUBLISHED IN APRIL

- China's March exports rose by 16.4% compared to expectations for an increase of 5%; imports rose by 20.3%, above expectations of 17%.
- China's Manufacturing PMI dropped in April to 50.3 compared to market expectations of 51.3.
- Economic sentiment in the Euro-Zone improved in April (ZEW survey at 26.3 vs. 25.6 in March). The PMI Composite number at 56.8 was above market expectations of 56.3.
- In Germany, economic sentiment (ZEW survey) improved in April (80.1 vs. 77.3 in March). The IFO Business Climate indicator was also higher at 112.9 vs. 112.4 in March.
- US payrolls in the private sector increased by only 89K in March compared to forecasts of 185K.
- US consumer confidence declined in April to a level of 120.3, below market forecasts of 122.5.
- US durable goods orders ex-Transportation dropped by 0.2% in March (forecasts of + 0.4%).
- US Q1 GDP rose at an annualized rate of 0.7%, below forecasts of 1.2%.

THE SPREAD BETWEEN 10-YEAR FRENCH OATs AND BUNDS DROPS BELOW 0.5%

78%

RATIO OF S&P 500 COMPANIES REPORTING Q1 2017 EARNINGS ABOVE ANALYSTS' FORECASTS

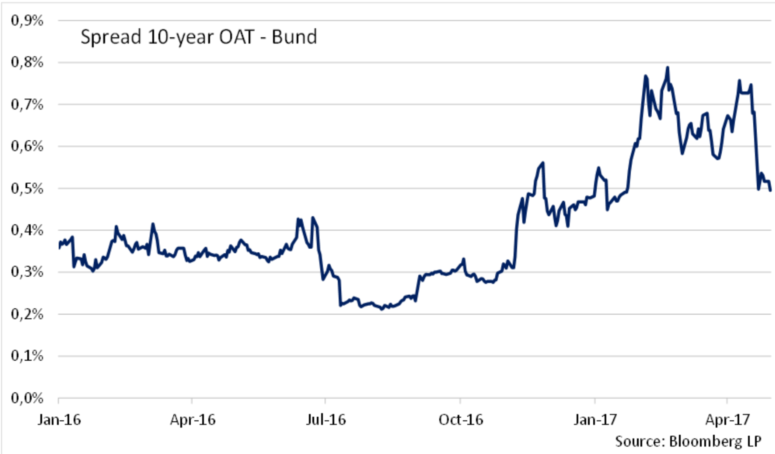
INVESTMENT PERSPECTIVE

The month of April got off to a difficult start for risk assets before ending on a very positive note. Following a strong first quarter for equities, investors turned more cautious in view of rising U.S. tensions with North Korea, Syria and Russia, and concerns about the French presidential elections. Gold, Treasuries, Bunds and the yen were well bid while volatility spiked as the VIX Index reached levels last observed after Trump's election last November. However, these trends were quickly reversed and volatility collapsed to a ten-year low. Better-than expected first-quarter earnings reports and the first-round results of the French elections were the main drivers for strong equity gains during the last week of the month.

The 1Q17 earnings season is well underway with more than 75% of the S&P 500 companies having reported. These reports have been very supportive for global equity markets and somewhat reassured investors about valuations, in the US especially. Out of the 376 S&P 500 companies having reported, 78% have beaten profit estimates and 63% revenue estimates; both numbers are above long-term averages and indicate an extensive recovery of corporate profit growth. In Europe, numbers have also been strong as 69% of the companies have beaten earnings estimates and 81% sales estimates.

In contrast to what took place in 2016, polling institutes called the result of France's presidential election first round correctly. Global equity markets rallied the week after Emmanuel Macron emerged as the clear favourite to be elected president, with European equities outperforming under the leadership of the financial and cyclical sectors. The euro also performed well as it benefited from higher Bund yields and an unwinding of hedges.

RECEDING EUROZONE POLITICAL RISKS



European political risks have been high on the list of concerns for investors, but have not had such an impact on the prices of assets so far. Nevertheless, French sovereign debt found itself under some pressure since the beginning of the year and the chart shows a widening of its spread versus German debt. Following the French presidential election's first-round results, this spread has significantly narrowed and returned back to its end-2016 level.

INVESTMENT STRATEGY

The environment continues to be supportive for risk assets and we only tweaked the composition of the portfolios in April. The case for Europe keeps on strengthening and we increased our allocation to equities of the region. Political risks are gradually receding and the likely election of the centrist candidate Emmanuel Macron as French president has been well received by the markets. Economic data has been consistently trending higher and beating expectations, while the latest earnings and sales of European companies are showing genuine strength of corporate activity. We therefore anticipate an extension of upgrades and strong inflows into European equities.

Despite the recent drop of the dollar, we have not increased our exposure to the greenback for non-USD portfolios. The interest rate differential between US Treasuries and Bunds has tightened and we would expect yields in Europe to keep on gradually rising. Some disappointment around policy initiatives during Donald Trump's first 100 days in office is also weighing on the value of the dollar.

PORTFOLIO ACTIVITY/NEWS

The portfolios continued to perform well in April, largely thanks to the equity asset class. The main contributions were provided by European equities, including the Banks ETF, Swiss small cap equities as well as frontier markets which were added to the portfolios in January. The weaker dollar against the euro was a detractor, for non-USD portfolios, as was the volatility strategy.

Towards the end of April, we further boosted the exposure to European equities by adding to a fund with a value approach and to our position in mid and small companies. These additions were financed by selling a long/short emerging markets hedge fund. This fund has been struggling to generate performance for some time despite the positive environment for emerging markets' assets. The fund's exposures into Russia and the energy sector have recently been detrimental and our very positive outlook on Europe has led us to take this decision.

EUROPEAN EQUITIES BOOSTED BY STRONG EARNINGS' REPORTS

	End 2016	March 2017	April 2017	MTD	2017
Equities					
S&P 500	2238.8	2362.7	2384.2	+0.9%	+6.5%
Euro Stoxx 50	3290.5	3500.9	3559.6	+1.7%	+8.2%
MSCI EM	862.3	958.4	978.0	+2.0%	+13.4%
Yields					
UST 10-year	2.44%	2.39%	2.28%	-11bps	-16bps
Bund 10-year	0.20%	0.33%	0.32%	-1bps	+12bps
BBB EU	1.30%	1.51%	1.44%	-7bps	+14bps
Currencies					
EUR/USD	1.052	1.065	1.090	+2.3%	+3.6%
USD/CHF	1.019	1.003	0.995	-0.8%	-2.4%
EUR/CHF	1.072	1.069	1.084	+1.4%	+1.1%
GBP/USD	1.234	1.255	1.295	+3.2%	+4.9%
Commodities					
CRB Index	192.5	185.9	181.7	-2.2%	-5.6%
Oil (WTI)	USD 53.7	USD 50.6	USD 49.3	-2.5%	-8.2%
Gold	USD 1152	USD 1249	USD 1268	+1.5%	+10.1%