FFG
FORUM FINANCE GROUP
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MONTHLY NEWSLETTER

August 2018

KEY ECONOMIC DATA PUBLISHED IN JULY

- China's June exports rose by 11.3% (YoY) compared to expectations of + 9.5%; imports increased by 14.1%, less than forecasts of 21.3%.
- China’s Caixin Manufacturing PMI was stable in July at 50.8 and in-line with market expectations.
- Economic sentiment in the Euro-Zone dropped in July (ZEW survey at - 18.7 vs. -12.6 in June). The PMI Composite number fell to 54.3 in July and was below expectations of 54.8.
- In Germany, economic sentiment (ZEW survey) dropped in July (72.4 vs. 80.6 in June). The IFO Business Climate Index was flat at 101.7, in-line with expectations.
- US consumer confidence was 127.4 in July, above forecasts of 126.
- The US ISM Manufacturing Index was stable at 55.3 in July compared to forecasts of 55.1.
- US Q2 initial GDP growth was of 4.1%, slightly below forecasts.
- US payrolls in the private sector rose by 170K in July, below forecasts of + 190K.

4.1%: THE INITIAL ESTIMATE OF Q2 2018 U.S. GDP GROWTH

$ 1 trillion

THE MARKET VALUE OF APPLE

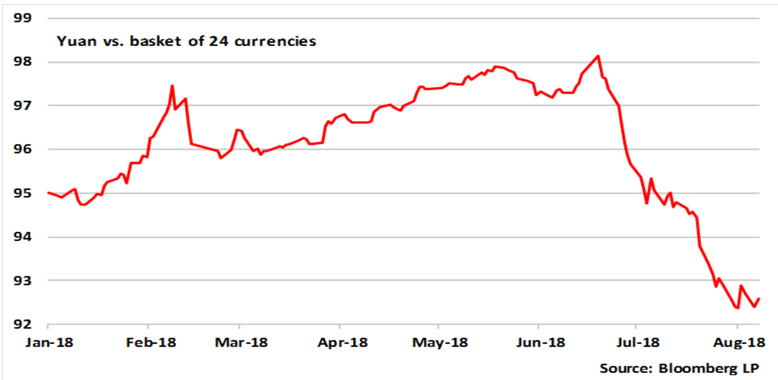
INVESTMENT PERSPECTIVE

July was a strong month for global equity markets as the MSCI World Local Currency Index gained 3.1%, with positive performances recorded across most regions. Concerns about the trade war took a back seat as investors focused on the supportive reporting of second quarter earnings, especially in the U.S. This higher appetite for risk assets was also reflected by the rise of sovereign debt yields, with that of the 10-year U.S. Treasury note moving back close to 3%, and gold continuing to drift lower.

The reporting of U.S. corporate earnings for the second quarter of 2018 is well advanced with more than 400 S&P 500 companies having reported. 84% of companies have beaten profit estimates and 71% revenue estimates; earnings growth is 25%, year-on-year, while revenue grew by 10%. These results can be qualified as exceptional, even if the share prices of some of the large IT names took a hit following some disappointments; Facebook, Netflix and Intel figured amongst the companies punished by the markets. The fact that this did not derail the advance of U.S. equities reflects some form of rotation into lagging sectors such as industrials, financials and consumer staples. In Europe, sales and earnings numbers were also positive, even if a much lower percentage of companies have managed to beat the estimates of analysts.

The strong momentum of the U.S. economy was confirmed by the 4.1% growth rate of GDP during the second quarter, putting it on track for average annual growth of over 3%. The economy benefited from solid consumption and business investment growth as well as from a temporary surge in exports. Effectively, exporters of soybeans rushed to get their produce into China ahead of the imposition of tariffs at the beginning of July.

THE WEAKNESS OF THE CHINESE YUAN



The chart shows that the Chinese yuan has depreciated significantly since the middle of June. In contrast to the surprise devaluation against the U.S. dollar in August 2015, which had rocked the markets at the time, the recent slide has had a more subdued effect. Even if the yuan’s latest depreciation has coincided with the rise of trade tensions between the U.S. and China, it would appear to be more the result of market forces than a deliberate devaluation; nevertheless, a weaker currency will help to cushion the impact of U.S. tariffs on Chinese exports. From the current level, it is likely that China will seek to stabilize its currency and to avoid depleting its FX reserves.

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INVESTMENT STRATEGY

The ongoing publication of companies' results for the second quarter has reinforced our positive outlook on equities for the second half of the year. Within a context of solid global economic growth and of valuations at reasonable levels, we would expect equities to end the year at higher levels unless the ubiquitous trade war concerns were to become a reality. A favourable resolution of the escalating tariff threats would most likely enable the equities of emerging markets to make up some of their year-to-date underperformance. We are positioned accordingly and remain hopeful that some kind of trade agreement will eventually be concluded.

As a reminder, our allocation into debt instruments is under-weight with credit risk favoured over duration risk. Our core scenario is for the yields on G-7 sovereign debt to continue rising gradually, hence our preference for senior secured loans and unconstrained strategies. Finally, the exposure to the dollar for non-USD portfolios has been maintained at neutral as a way of hedging some of the downside risks.

THE EQUITY ASSET CLASS OFFERS THE BEST OUTLOOK

PORTFOLIO ACTIVITY/NEWS

Thanks to the strong performance of global equity markets, July was a positive month for the portfolios. The best contributions were provided by equity funds across different regions. Fixed-income funds also contributed positively as a result of the tightening of credit spreads. The overall contribution of hedge funds was negative, largely due to the trend-following CTA strategy being hit by its leveraged long exposure to rates. FX contribution was marginal as the major parities barely changed on a monthly basis.

Towards the end of June, we trimmed some of the best perfoming positions, including funds exposed to U.S. growth stocks as well as a Japanese fund well ahead of its reference benchmark. The resulting cash was deployed into a fund investing into U.S. small cap growth stocks. The key objective of the fund's strategy is to identify companies undergoing positive dynamic change and the manager will look to capitalize on this change before it is recognized by the market. This approach has allowed the fund to generate an outstanding track-record with an ongoing bias towards the healthcare and technology sectors.

	End 2017	June 2018	July 2018	MTD	2018
Equities					
S&P 500	2673.6	2718.4	2816.3	+ 3.6%	+ 5.3%
Euro Stoxx 50	3504.0	3395.6	3525.5	+ 3.8%	+ 0.6%
MSCI EM	1158.5	1069.5	1087.5	+ 1.7%	- 6.1%
Yields					
UST 10-year	2.41%	2.86%	2.96%	+ 10bps	+ 55bps
Bund 10-year	0.43%	0.30%	0.44%	+ 14bps	+ 1bps
BBB EU	1.44%	1.72%	1.72%	+ 0bps	+ 28bps
Currencies					
EUR/USD	1.201	1.168	1.169	+ 0.1%	- 2.7%
USD/CHF	0.974	0.991	0.990	- 0.1%	+ 1.6%
EUR/CHF	1.170	1.157	1.158	+ 0.1%	- 1.0%
GBP/USD	1.351	1.321	1.312	- 0.7%	- 2.9%
Commodities					
CRB Index	193.9	200.4	194.5	- 2.9%	+ 0.3%
Oil (WTI)	USD 60.4	USD 74.2	USD 68.8	- 7.3%	+ 13.9%
Gold	USD 1303	USD 1253	USD 1224	- 2.3%	- 6.1%