FFG

FORUM FINANCE GROUP

1994

MONTHLY NEWSLETTER

March 2019

KEY ECONOMIC DATA PUBLISHED IN FEBRUARY

- China's January exports rose by 9.1% (YoY) compared to forecasts of - 3%; imports declined by 1.5%, above expectations of - 10%.
- China's Caixin Manufacturing PMI jumped to 49.9 in February versus market expectations of 48.5.
- Economic sentiment in the Euro-Zone improved in February (ZEW survey at - 16.6 vs. -20.9 in January). The PMI Composite number was stronger at 51.9 (51.1 expected).
- In Germany, economic sentiment (ZEW survey) weakened in February (15 vs. 27.6 in January). The IFO Business Climate Index also dropped to 98.5, below expectations.
- US consumer confidence was 131.4 in February, well above forecasts.
- The Markit US Manufacturing PMI Index dropped in February to 53, compared to forecasts of 54.8. The Services PMI was higher at 56, above forecasts of 54.3.
- US payrolls in the private sector rose by 25K in February vs. forecasts of + 170K, with January numbers revised from 296K to 308K.

THE CHINESE CSI 300 INDEX RISES MORE THAN 30% BY EARLY MARCH

$621 billion

THE U.S. TRADE DEFICIT IN 2018, A 10-YEAR HIGH

INVESTMENT PERSPECTIVE

The positive trend for risk assets observed since the beginning of the year extended throughout February. The MSCI World Index in local currencies gained another 3.2%, bringing the year-to-date performance up to 11%. The spreads of credit and emerging market debt also continued to contract, with high-yield bonds now having erased most of their losses of November and December. Logically, the more defensive assets such as government debt and gold ended the month on a weaker note, with yields moving higher and the price of gold dropping back to its end 2018 level. The major currency crosses evolved within tight ranges to remain little changed so far this year.

The rising trend of equity markets was not derailed by macro-economic data that showed ongoing weakness, in Europe and China particularly. There has been, nevertheless, some signs of improvement recently, with PMIs appearing to trough and confidence indicators also rebounding. The positive sentiment within markets was supported in part by additional liquidity provided by the central banks this year, but also by more optimism over the negotiations between the U.S. and China, with Donald Trump extending the March 1st deadline for an increase of tariffs. For obvious reasons, both countries appear intent on reaching an agreement, even if it did not immediately resolve all the issues. The end of the reporting of 4Q earnings was another factor that has proved to be overall supportive for equities, as a majority of companies were able to beat lowered expectations.

The ECB has just announced that it would keep interest rates on hold until at least the end of the year; it will also provide another round of cheap lending for Eurozone banks due to start in September. This reflects the central bank's increasing concern about the strength of the Eurozone economy as it now projects GDP growth of 1.1% this year, revised down from 1.7% previously.

THE STRONG REBOUND OF CHINESE A SHARES

The chart above shows that the Shanghai Shenzen CSI 300 Index has got off to a strong start in 2019 following last year's 25% correction. Chinese equities figured amongst the worst performers in 2018, amidst an economic slowdown and trade tensions with the U.S. The early year rebound has been supported by strong international inflows, a series of stimulus measures taken by the Chinese leadership, additional central bank liquidity, and optimism about a trade deal as well as by valuations which had become excessively cheap.

INVESTMENT STRATEGY

We recently reduced our overweight equity allocation to neutral as markets appeared to be overbought. The strong move of equities this year, as well as high alpha generated by some funds, have provided a good opportunity to lock in some profits. A lot of positive news has been priced in and we expect markets to take a breather at this stage, especially as the valuations of U.S. stocks are back in line with long-term averages. There is a risk that markets could focus more on concerns about future economic growth now that most companies have reported their results for the fourth quarter.

The decision of the ECB to turn even more dovish has taken the markets by surprise and, following an initial positive market reaction, the promise of more cheap funding has appeared to spook investors. Bond yields have dropped, equities are weaker and the euro has lost ground. We will be closely monitoring the behaviour of the euro due to our underweight exposure for non-USD portfolios.

EQUITY MARKETS AT RISK OF STALLING IN THE SHORT TERM

PORTFOLIO ACTIVITY/NEWS

The portfolios performed well in February as they continued to benefit from supportive markets for risk assets. The main contributions were provided by a wide range of funds within the equity asset class, while convertible bonds and credit also added to the performance; hedge fund strategies proved to be modest detractors, which was to be expected considering their positioning. U.S. small caps and Japanese equities were the strongest contributors, thanks to significant generation of alpha relative to their benchmarks.

During the past month, we carried out a number of transactions. Firstly, we topped up some of our existing equity positions in emerging markets and Japan. In the wake of strong gains for equity markets since the beginning of the year, we also took some profits by top-slicing some out-performing funds, investing in the U.S. and Europe in particular. Finally we added a new credit fund with a flexible approach. The manager can invest into corporate bonds in a global manner, but can also position the portfolio much more defensively when market conditions deteriorate. The fund has a very strong track-record and managed to end 2018 with a positive performance in USD.

	End 2018	January 2019	February 2019	MTD	2019
Equities					
S&P 500	2506.9	2704.1	2784.5	+ 3.0%	+ 11.1%
Euro Stoxx 50	3001.4	3159.4	3298.3	+ 4.4%	+ 9.9%
MSCI EM	965.7	1049.9	1051.0	+ 0.1%	+ 8.8%
Yields					
UST 10-year	2.68%	2.63%	2.72%	+ 9bps	+ 4bps
Bund 10-year	0.24%	0.15%	0.18%	+ 3bps	- 6bps
BBB EU	1.89%	1.77%	1.61%	- 16bps	- 28bps
Currencies					
EUR/USD	1.147	1.145	1.137	- 0.7%	- 0.9%
USD/CHF	0.982	0.994	0.998	+ 0.4%	+ 1.6%
EUR/CHF	1.126	1.138	1.135	- 0.3%	+ 0.8%
GBP/USD	1.275	1.311	1.326	+ 1.2%	+ 4.0%
Commodities					
CRB Index	169.8	179.6	182.7	+ 1.7%	+ 7.6%
Oil (WTI)	USD 45.4	USD 53.8	USD 57.2	+ 6.4%	+ 26.0%
Gold	USD 1282	USD 1321	USD 1313	- 0.6%	+ 2.4%