FFG

FORUM FINANCE GROUP

1994

MONTHLY NEWSLETTER

April 2019

KEY ECONOMIC DATA PUBLISHED IN MARCH

- China's February exports dropped by 20.7% (YoY) compared to forecasts of - 2.9%; imports declined by 5.2%, more than expectations of - 1%.
- China's Caixin Manufacturing PMI jumped to 50.8 in March versus market expectations of 49.8.
- Economic sentiment in the Euro-Zone improved in March (ZEW survey at - 2.5 vs. - 16.6 in February). The PMI Composite number was weaker at 51.3 (52 expected).
- In Germany, economic sentiment (ZEW survey) weakened in March (11.1 vs. 15 in February). The IFO Business Climate Index improved to 99.6, above expectations.
- US consumer confidence was 124.1 in March, well below forecasts.
- The Markit US Manufacturing PMI Index dropped in March to 52.4, compared to forecasts of 53.5. The Services PMI was flat at 56, in line with forecasts.
- US payrolls in the private sector rose by 182K in March vs. forecasts of + 177K, with February numbers revised from 25K to 28K.

+ 12%: THE BEST QUARTER FOR THE MSCI WORLD LC INDEX SINCE Q3 2009

- 0.07%

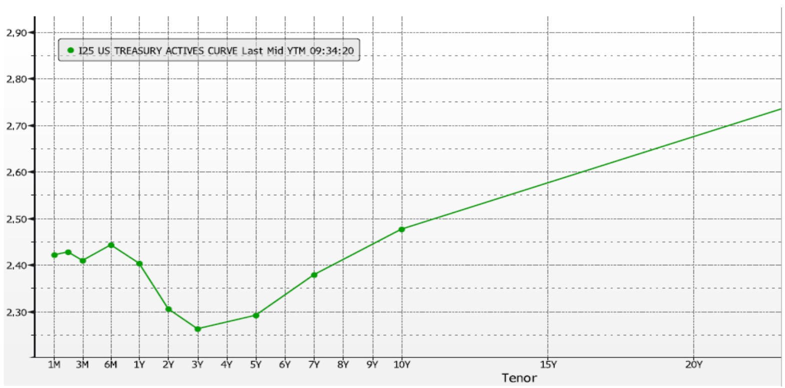
THE YIELDS OF 10-YEAR BUNDS ARE BACK INTO NEGATIVE TERRITORY

INVESTMENT PERSPECTIVE

The first quarter has ended with a well above-average quarterly gain for global equity markets, a significant contraction of credit and EM debt spreads and a plunge of sovereign debt yields. It has also seen the main central banks turn increasingly dovish in the light of growth slowdown concerns and a lack of inflation pressures. Following a 13.5% correction during last year's fourth quarter, the MSCI World Index in local currencies has made up most of its losses thanks to a 12% year-to-date rebound. Credit spreads have also fared well, with those of U.S. and European high yield bonds tightening by 1.35% and 1.09% respectively. These trends have been primarily driven by the unwinding of excessively pessimistic sentiment, the Federal Reserve's change of tone and optimism over a sino-american trade deal.

The past month was marked by the steep drop of bond yields in a context of weak economic data and the announcement of even more accommodative monetary policies. PMI Manufacturing data continued to show widespread weakness, in Europe in particular, with Germany's number dropping to 44.1 from 58.2 a year earlier; one must nevertheless point out that China's latest manufacturing data has started to show signs of improvement. At its last meeting, the Federal Reserve proved to be even more dovish than expected by the markets; the bank announced the end to its balance sheet reduction for 30 September and its members no longer anticipate any rate hikes this year. Furthermore, it downgraded its GDP growth outlook for 2019 from 2.3% to 2.1%. On its side, the European Central Bank had already spooked markets at the beginning of March due to its bleaker economic outlook and by the announcement of a number of measures to support the Eurozone's economy. These more dovish stances triggered much lower bond yields, with those of 10-year Treasuries and Bunds dropping from end-February levels of 2.72% and 0.18% to 2.41% and - 0.07% respectively.

THE MUCH DEBATED U.S. YIELD CURVE



One of the most hotly debated issues in financial markets is the current shape of the U.S. yield curve. The chart above shows that it is now partially inversed, as some longer-term yields are lower than shorter-term ones. The inversion of the yield curve is seen as a forward indicator of an upcoming recession, even if there is no consensus over which terms' spread is the most relevant. We can observe that neither the 10/2 years spread nor the 30Y/3months spread have inverted and conclude that it is still premature to get overly concerned.

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INVESTMENT STRATEGY

In March we decided to take additional profits on equities, meaning that our equity allocation has been cut this year from an initial overweight to now being slightly underweight. This decision was driven not only by the desire to protect some of the strong year-to-date portfolio performance but also by the feeling that markets might be getting carried away. A lot of positive news appears to be priced in at a time when global GDP growth is slowing and when uncertainty over corporate earnings is high. The markets also appear to be totally ignoring the risks related to a no-deal Brexit. We therefore prefer to err on the side of caution ahead of the reporting of first quarter earnings, which starts mid-April.

The first quarter has been quite exceptional in terms of performance as both equity and bond markets have rallied simultaneously. We do not believe that this situation will last and expect a decrease of the correlation between both asset classes going forward.

PORTFOLIO ACTIVITY/NEWS

In March, the portfolios added to their early-year gains, with both equities and bonds contributing positively. In contrast to the previous months, the overall contribution from hedge funds was also positive. This was mainly due to the strong return recorded by the trend-following strategy, which benefited from its high exposure to long-term rates, to credit and to equities. Other strong portfolio contributors included emerging and frontier markets' equities, as well as bond funds, especially those with a long duration positioning. Our underweight exposure towards the U.S. dollar represented a modest opportunity cost for portfolios denominated in euros and pounds, due to the weakness of these currencies.

During the past month, we took profits on our U.S. Small Cap fund and also on a fund investing into Swiss equities. The reasons for these transactions include strong year-to-date performance, portfolio risk management and the view that markets might be getting a little frothy in view of economic uncertainty and excessive optimism over the impact of the sino-american trade deal.

WE HAVE OPTED FOR MORE CAUTION IN THE PORTFOLIOS

	End 2018	February 2019	March 2019	MTD	2019
Equities					
S&P 500	2506.9	2784.5	2834.4	+ 1.8%	+ 13.1%
Euro Stoxx 50	3001.4	3298.3	3351.7	+ 1.6%	+ 11.7%
MSCI EM	965.7	1051.0	1058.1	+ 0.7%	+ 9.6%
Yields					
UST 10-year	2.68%	2.72%	2.41%	- 31bps	- 27bps
Bund 10-year	0.24%	0.18%	- 0.07%	- 25bps	- 31bps
BBB EU	1.89%	1.61%	1.27%	- 34bps	- 62bps
Currencies					
EUR/USD	1.147	1.137	1.122	- 1.3%	- 2.2%
USD/CHF	0.982	0.998	0.995	- 0.3%	+ 1.3%
EUR/CHF	1.126	1.135	1.116	- 1.7%	- 0.9%
GBP/USD	1.275	1.326	1.304	- 1.7%	+ 2.3%
Commodities					
CRB Index	169.8	182.7	183.8	+ 0.6%	+ 8.2%
Oil (WTI)	USD 45.4	USD 57.2	USD 60.1	+ 5.1%	+ 32.4%
Gold	USD 1282	USD 1313	USD 1292	- 1.6%	+ 0.8%