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FORUM FINANCE GROUP

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MONTHLY NEWSLETTER

May 2019

KEY ECONOMIC DATA PUBLISHED IN APRIL

- China's March exports rose by 14.2% (YoY) compared to forecasts of + 6.5%; imports declined by 7.6%, more than expectations of + 0.2%.
- China's Caixin Manufacturing PMI declined to 50.2 in April versus market expectations of 50.7.
- Economic sentiment in the Euro-Zone improved in April (ZEW survey at + 4.5 vs. - 2.5 in March). The PMI Composite number was weaker at 51.3 (51.8 expected).
- In Germany, economic sentiment (ZEW survey) rebounded in April (3.1 vs. - 3.6 in March). The IFO Business Climate Index dropped to 99.2, below expectations.
- US consumer confidence climbed to 129.2 in April, above forecasts.
- The Markit US Manufacturing PMI Index was stable in April at 52.4 and in-line with forecasts. The Services PMI was lower at 52.9, well below market forecasts.
- US payrolls in the private sector rose by 236K in April vs. forecasts of + 188K, with March numbers revised from 182K to 179K.

+ 27%: THE PERFORMANCE OF THE U.S. TECHNOLOGY SECTOR IN 2019

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THE S&P 500 CLOSES APRIL AT A NEW RECORD HIGH

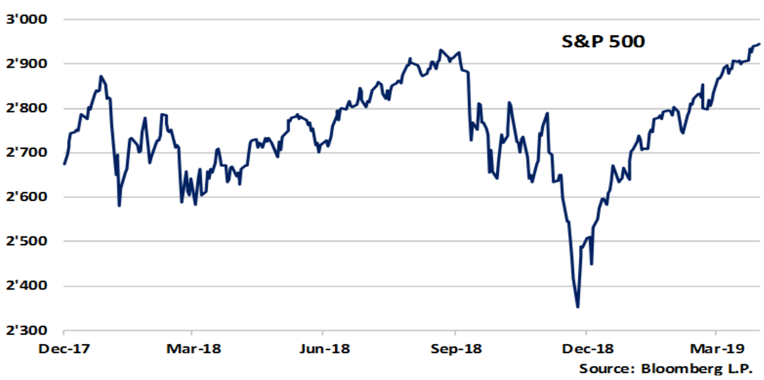
INVESTMENT PERSPECTIVE

The rebound of global equity markets was extended in April with European stocks outperforming and U.S. indices reaching new records. The MSCI World Index in local currencies gained 3.6% during the month to bring its year-to-date performance to 16%; growth stocks outperformed value ones, with the technology sector faring the best, on the back of well-received first quarter earnings. The strong demand for risky assets was also reflected by tighter credit spreads and by the weakness of the Swiss franc, which depreciated by 2.4% against the euro and the U.S. dollar. The rally of G-7 sovereign debt came to a halt as yields moved higher, even if this rise remained modest when compared to the plunge of yields over the last quarters.

Companies have been busy reporting their earnings for the first quarter and, overall, this has proved to be supportive for equity markets. With 290 out of 500 S&P 500 companies having already reported (73% of the index's market cap), 75% have beaten profit estimates and 52% revenue estimates. Analysts had significantly downgraded their earnings' expectations, especially for the technology sector, so the beat rate must be seen in that context. The results of many tech giants were well received by investors, nevertheless, and companies such as Microsoft, Amazon, Facebook and Apple saw their stock prices trade up and push indices higher.

Global macroeconomic data continues to be mixed but improvements have been observed in the Eurozone and Chinese economies. Euro-area GDP for the first quarter showed a brightening picture, while the latest data in China suggest that policy measures are starting to bear fruit. The initial estimate of U.S. Q1 GDP was 3.2%, above forecasts, but it was driven by two of the more volatile components of GDP, inventories and exports. In contrast, household consumption and fixed investments only rose by 1.2% and 1.5%, respectively, signalling that U.S. GDP growth could slow in the next quarters.

U.S. STOCKS AT ALL-TIME HIGHS



The recovery of global equity markets in 2019 has been spectacular and the chart shows that the S&P 500 Index is back into record territory. After briefly dropping below 2'350 in late December, the index has rebounded by more than 25% and erased all of its fourth quarter losses. It is interesting to note that the index has been driven by cyclical sectors, with the IT-heavy Nasdaq Composite Index up by 22%, compared to a 14% gain for the Dow Jones Index.

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INVESTMENT STRATEGY

Following the two-phase shift of our equity allocation from overweight to underweight since the beginning of the year, there have been no changes to our asset allocation in April. That means that portfolios are holding an above-average level of cash, while our fixed-income allocation is still under-weight. As a reminder, our investments across the asset class are well diversified, including unconstrained fixed-income strategies, investment-grade and high-yield bonds, senior secured loans and convertible bonds. Our cautious equity positioning reflects a macro-economic environment that is unlikely to benefit from any significant pick-up of growth, and equity markets already discounting a lot of positive news; we also have some concerns about earnings' expectations for the remainder of the year in a context of slower growth.

For the majority of portfolios, we have not been exposed to gold for some time but it is obviously one amongst the many assets that we continuously monitor. Its recent price decline still leaves it some distance away from our target of around $1'200 per ounce, but we would not exclude the possibility that the precious metal could make a comeback within the portfolios at some stage.

WE MAINTAIN AN UNDERWEIGHT ALLOCATION TOWARDS EQUITIES

PORTFOLIO ACTIVITY/NEWS

In April, the portfolios continued to appreciate, largely the result of strong equity contributions. Fixed-income positions all ended in positive territory and added more modest contributions to the portfolios' performance. Within the alternative space, the trend-following strategy maintained its positive momentum to record another valuable monthly gain. U.S., European, emerging markets and Japanese equity funds all produced noteworthy returns relative to their respective benchmarks; when looking at year-to-date performances, it is reassuring to observe that a majority of our funds have produced significant alpha.

We added a new healthcare fund to our list of approved funds. This fund invests in companies active in the medical technology and healthcare services sector, but excludes drug makers. Healthcare represents 10% of global GDP and is an above-average growth sector which benefits from favorable demographics and the rise of global prosperity. Digital health, minimally invasive technologies, gene-based diagnostics and managed healthcare concepts figure amongst the principal themes that the managers will invest into. In our model portfolios, this fund has replaced a defensive global equity fund.

	End 2018	March 2019	April 2019	MTD	2019
Equities					
S&P 500	2506.9	2834.4	2945.8	+ 3.9%	+ 17.5%
Euro Stoxx 50	3001.4	3351.7	3514.6	+ 4.9%	+ 17.1%
MSCI EM	965.7	1058.1	1079.2	+ 2.0%	+ 11.7%
Yields					
UST 10-year	2.68%	2.41%	2.50%	+ 9bps	- 18bps
Bund 10-year	0.24%	- 0.07%	0.03%	+ 10bps	- 21bps
BBB EU	1.89%	1.27%	1.17%	- 10bps	- 72bps
Currencies					
EUR/USD	1.147	1.122	1.122	+ 0.0%	- 2.2%
USD/CHF	0.982	0.995	1.019	+ 2.4%	+ 3.8%
EUR/CHF	1.126	1.116	1.143	+ 2.4%	+ 1.5%
GBP/USD	1.275	1.304	1.304	+ 0.0%	+ 2.3%
Commodities					
CRB Index	169.8	183.8	184.3	+ 0.3%	+ 8.5%
Oil (WTI)	USD 45.4	USD 60.1	USD 63.9	+ 6.3%	+ 40.7%
Gold	USD 1282	USD 1292	USD 1284	- 0.6%	+ 0.2%

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