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FORUM FINANCE GROUP

1994

MONTHLY NEWSLETTER

June 2019

KEY ECONOMIC DATA PUBLISHED IN MAY

- China's April exports declined by 2.7% (YoY) compared to forecasts of + 2.4%; imports rose by 4%, more than expectations of - 2.1%.
- China’s Caixin Manufacturing PMI was stable at 50.2 in May versus market expectations of 50.
- Economic sentiment in the Euro-zone dropped in May (ZEW survey at - 1.6 vs. + 4.5 in April). The PMI Com-posite number was stable at 51.6 (51.7 expected).
- In Germany, economic sentiment (ZEW survey) fell in May (- 2.1 vs. + 3.1 in April). The IFO Business Climate Index declined to 97.9, below expectations of 99.1.
- US consumer confidence climbed to 134.1 in May, above forecasts.
- The Markit US Manufacturing PMI Index weakened in May at 50.6, below forecasts. The Services PMI was lower at 50.9, well below market forecasts of 53.4.
- US payrolls in the private sector rose by 90K in May vs. forecasts of + 174K, with April numbers revised from 236K to 205K.

- 17%: THE PERFORMANCE OF THE PHILADELPHIA SEMI-CONDUCTOR INDEX IN MAY

2.06%

THE EARLY-JUNE YIELD ON 10-YEAR U.S. TREASURIES

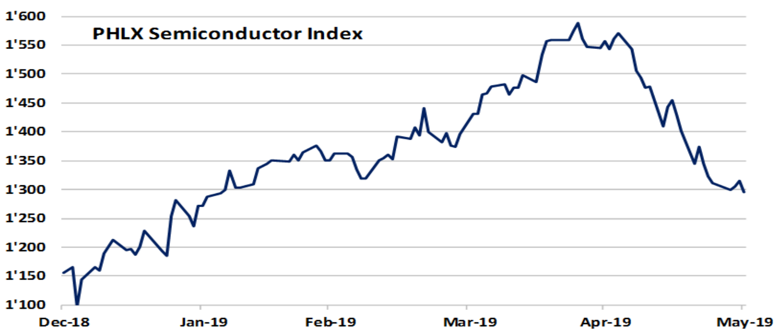
INVESTMENT PERSPECTIVE

The four-month rally of global equity markets came to a screeching halt in May. The early-year optimism over a trade deal between China and the U.S. gave way to concerns over a major breakdown of trade talks and growing fears of an economic slowdown. The prices of risky assets depreciated across the board; the MSCI World Index in local currencies fell by 6%, the spreads of credit and emerging market debt widened and commodity prices weakened, with oil down by 16%. Significant flows into safe-haven assets contributed to strong returns for high-quality sovereign debt, gold and defensive currencies such as the yen and the Swiss franc. The yield of the 10-year U.S. Treasury note declined by 0.38% to 2.10%, its lowest level since September 2017, while the yield on 10-year Bunds reached an all-time low of - 0.21%.

Once again, the tweeting activity of Donald Trump has been a major driver of financial markets; the U.S. President blamed China for trying to renegotiate certain terms, placed restrictions on business between U.S. companies and Huawei, decided to delay tariffs on European automakers and finally added new tariffs on imports from Mexico. The latter decision came out of the blue, with tariffs gradually rising if Mexico did not help to limit the flow of migrants. The 2020 re-election has started in earnest, with Trump seeing a multi-front trade war as a good way to play to his political base. For market participants, the rise of uncertainty makes the outcome of investment decisions much less predictable, hence the shift towards more defensive assets.

Apart from trade headlines, global macroeconomic data did not provide much support to the markets as forward-looking indicators tended to disappoint, in the U.S. in particular. The outcome of the much-awaited European elections was taken in its stride by the markets as the worst-case scenario was avoided; gains made by populist and far-right parties failed to match projections and the new European parliament will reflect the fragmentation of politics which has already been observed in many European countries.

A TOUGH MONTH OF MAY FOR THE SEMICONDUCTOR SECTOR



Source: Bloomberg L.P.

The month of May was dominated by headlines over trade talks and a U.S. ban on the Chinese tech giant Huawei, limiting the business U.S. companies could do with it. This ban had a ripple effect on the whole technology sector, with semiconductor companies being the most severely impacted. The chart above shows that the reference Philadelphia Semiconductor Index fell by 17% in May, its worst monthly performance since November 2008.

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INVESTMENT STRATEGY

We are sticking to our relatively defensive asset allocation in view of a rising level of uncertainty and concerns over weaker economic data. We will not pretend to have been expecting such a steep reversal of equity markets, but we had felt that they were pricing in an overly optimistic scenario. We observe that markets are once again looking for some help from the Federal Reserve and that the odds of a Sino-American trade deal in the short term have significantly lengthened. In this environment, it is difficult to justify adding more risk to the portfolios and we therefore maintain our underweight equity allocation.

The recent trend of bond markets has been quite dramatic, in view of the collapsing yields, as has been the significant shift in expectations on rate cuts by the Federal Reserve. Markets are now pricing in a 55% probability for 3 rate cuts of 0.25% this year, compared to a 2% probability only a month ago! The market's divergence with the position of the central bank is becoming quite extreme and the Fed will need to tread carefully to manage the growing pressure from the markets.

PORTFOLIO ACTIVITY/NEWS

In May the portfolios gave back some of their strong returns recorded during the first four months of 2019. This resulted mainly from weak equity markets and from a widening of credit spreads. The more defensive fixed-income positions ended in positive territory while the best contribution was provided by the trend-following strategy, thanks to its high exposure to rates. In relative terms, most equity funds fared better than their benchmarks, with only some exceptions. Our fund investing into U.S. value companies was the largest detractor as it lost all of its early-year outperformance. Despite this setback, we maintain our confidence in the manager and have topped up positions in some portfolios.

The latest addition to our list of funds is an "out-of-the-box" Swiss franc bond fund investing into investment grade quality. The distinctive feature of this fund is that it invests both into higher duration top quality bonds and into up to a maximum of 30% of global investment grade convertible bonds; this "barbell" approach enables the fund to benefit from its higher duration and top quality in risk-off periods and from its equity sensitivity when equities are rising.

WE MAINTAIN OUR UNDERWEIGHT ALLOCATION TOWARDS EQUITIES

	End 2018	April 2019	May 2019	MTD	2019
Equities					
S&P 500	2506.9	2945.8	2752.1	- 6.6%	+ 9.8%
Euro Stoxx 50	3001.4	3514.6	3280.4	- 6.7%	+ 9.3%
MSCI EM	965.7	1079.2	998.0	- 7.5%	+ 3.3%
Yields					
UST 10-year	2.68%	2.50%	2.12%	- 38bps	- 50bps
Bund 10-year	0.24%	0.03%	- 0.20%	- 23bps	- 44bps
BBB EU	1.89%	1.17%	1.17%	+ 0bps	- 72bps
Currencies					
EUR/USD	1.147	1.122	1.117	- 0.4%	- 2.6%
USD/CHF	0.982	1.019	1.001	- 1.8%	+ 1.9%
EUR/CHF	1.126	1.143	1.118	- 2.2%	- 0.7%
GBP/USD	1.275	1.304	1.263	- 3.1%	- 0.9%
Commodities					
CRB Index	169.8	184.3	175.4	- 4.8%	+ 3.3%
Oil (WTI)	USD 45.4	USD 63.9	USD 53.5	- 16.3%	+ 17.8%
Gold	USD 1282	USD 1284	USD 1306	+ 1.7%	+ 1.9%