FFG
FORUM FINANCE GROUP
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MONTHLY NEWSLETTER

November 2019

KEY ECONOMIC DATA PUBLISHED IN OCTOBER

- China's September exports dropped by 3.2% (YoY) compared to forecasts of - 3%; imports dropped by 8.5%, more than expectations of - 5.6%.
- China's Caixin Manufacturing PMI improved in October to 51.7 versus market expectations of 51.
- Economic sentiment in the Euro-zone weakened in October (ZEW survey at - 23.5 vs. - 22.4 in September). The PMI Composite number was stable at 50.2 (50.4 expected).
- In Germany, economic sentiment (ZEW survey) dropped in October (- 22.8 vs. - 22.5 in September). The IFO Business Climate Index was stable at 94.6, in-line with expectations.
- US consumer confidence was 125.9 in October, below forecasts of 127.8.
- The Markit US Manufacturing PMI Index improved in October to 51.5, above forecasts. The Services PMI was stable at 51, in-line with market expectations.
- US payrolls in the private sector rose by 131K in October vs. forecasts of + 80K, with September numbers revised from 114K to 167K.

THE U.S. BUDGET DEFICIT HAS TOPPED $1 TRILLION SO FAR THIS YEAR

+ 5.3%

THE BEST MONTH FOR STERLING/DOLLAR PARITY IN A DECADE

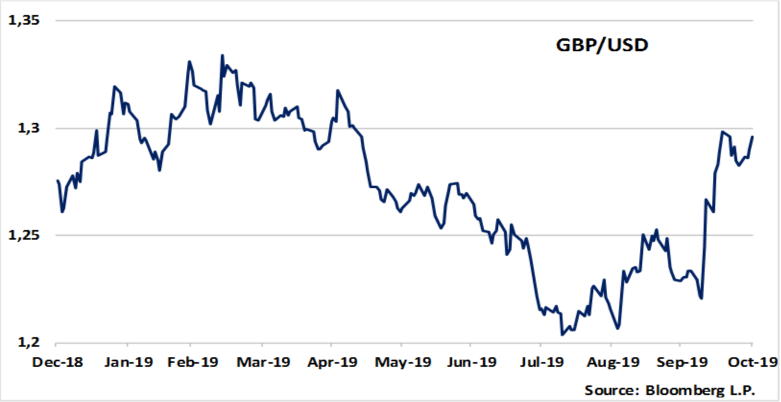
INVESTMENT PERSPECTIVE

Following a rocky start to the month, global equity markets ended October with gains. The MSCI World Index, in local currencies, appreciated by 1.8%, and Japanese equities continued to outperform. Markets were dominated by a de-escalation of trade tensions, the reporting of Q3 earnings and Brexit events which all contributed to an improvement of investor sentiment. The S&P 500 managed to record a new all-time high, but with a certain lack of conviction, in view of the low volume of traded shares and the narrow breadth of the market. Sovereign debt yields moved higher during most of the month until the last trading sessions saw them reverse on renewed trade concerns and on weak U.S. economic data. The U.S. dollar depreciated against most currencies, largely the result of optimism over trade talks.

The October meeting of the U.S. Federal Reserve produced the expected outcome in terms of its benchmark reference rate, i.e. another 0.25% cut to a range of 1.50% to 1.75%. The less predictable part was how the central bank would communicate on its outlook for monetary policy. The Fed turned out to be more hawkish than expected as it signalled an end to its recent easing cycle. Fed Chairman Powell stressed that the current stance of monetary policy would be appropriate as long as incoming information remained consistent with the bank's outlook. However, Powell also made it clear that tightening was very unlikely in view of below-target inflation.

Companies have been busy reporting their earnings for the third quarter and, overall, this has proved to be supportive for equity markets. With 351 out of 500 S&P 500 companies having already reported, 70% have beaten profit estimates and 60% revenue estimates. In Europe, 55% of companies have produced positive earnings surprises and 60% positive revenue surprises.

STERLING JUMPS AS THE EU AND THE UK REACH AN AGREEMENT



The British pound appreciated strongly in October, with the GBP/USD parity rising by more than 5%. A meeting between the British PM Boris Johnson and his Irish counterpart, Leo Varadkar, ended with an optimistic statement which opened the way for an agreement between the UK and the European Union. While the deal was insufficient for Johnson to honour his pledge to exit the EU by October 31st, due to protracted parliamentary procedures, it significantly reduced the risk of a no-deal Brexit and propelled sterling much higher.

INVESTMENT STRATEGY

Global equity markets have continued to edge higher despite the ongoing slowdown of economic growth and the absence of signs of any upcoming improvement. On the other hand, the risks of a recession still appear as being quite low, mainly thanks to the resilience of consumers, while trade tensions have declined. In this environment, investors are taking the view that markets are benefiting from a Goldilocks scenario, with modest, even if slowing growth, and central banks providing monetary support thanks to rate cuts and to an accommodating bias. At the risk of missing out on some potential upside until year-end, we maintain our modest underweight allocation towards equities. We view the current trend for equities as one that is lacking conviction and consider that a lot of positive news is already priced in.

The euro has recently appreciated against the U.S. dollar but we do not foresee further significant upside at this stage. So far this year currency volatility has been low and the major FX crosses have not changed much. Our allocation towards the dollar remains underweight.

EQUITIES ARE CLIMBING THE WALL OF WORRY BUT ARE STILL LACKING CONVICTION

PORTFOLIO ACTIVITY/NEWS

The portfolios ended October slightly higher thanks largely to the positive performances of equity positions. The rebound of bond yields meant that the overall contribution of the fixed-income asset class was close to neutral. The global contribution of alternative investments was detrimental as trend-following, Global Macro and Risk Premia strategies ended with small negative performances. For a second consecutive month, the best contribution was provided by our U.S. value fund which continued to benefit from the regained interest for value stocks. Japanese and emerging markets equities also fared well as they made up some of their year-to-date underperformance.

We added a new short duration credit fund to the portfolios in October. The strategy of the fund is based on a diversified portfolio of credit instruments and composed of three sub-strategies: carry (buy-and-hold), market timing (trading in new issues) and derivative strategies (pair trades, credit curve, capital structure…). The track-record of this fund since its inception has been outstanding and it ended 2018 with a gain, quite an achievement in a very challenging year. The main purpose of this fund is to offer a low-risk alternative to cash for portfolios denominated in euros and Swiss francs.

	End 2018	September 2019	October 2019	MTD	2019
Equities					
S&P 500	2506.9	2976.7	3037.6	+ 2.0%	+ 21.2%
Euro Stoxx 50	3001.4	3569.5	3604.4	+ 1.0%	+ 20.1%
MSCI EM	965.7	1001.0	1042.0	+ 4.1%	+ 7.9%
Yields					
UST 10-year	2.68%	1.67%	1.69%	+ 2bps	- 99bps
Bund 10-year	0.24%	- 0.57%	- 0.41%	+ 16bps	- 65bps
BBB EU	1.89%	0.59%	0.65%	+ 6bps	- 124bps
Currencies					
EUR/USD	1.147	1.090	1.115	+ 2.3%	- 2.8%
USD/CHF	0.982	0.998	0.986	- 1.2%	+ 0.4%
EUR/CHF	1.126	1.088	1.100	+ 1.1%	- 2.3%
GBP/USD	1.275	1.229	1.294	+ 5.3%	+ 1.5%
Commodities					
CRB Index	169.8	173.9	176.9	+ 1.7%	+ 4.2%
Oil (WTI)	USD 45.4	USD 54.1	USD 54.2	+ 0.2%	+ 19.4%
Gold	USD 1282	USD 1472	USD 1513	+ 2.8%	+ 18.0%