FFG
FORUM FINANCE GROUP
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MONTHLY NEWSLETTER

December 2019

KEY ECONOMIC DATA PUBLISHED IN NOVEMBER

- China's October exports dropped by 0.9% (YoY) compared to forecasts of - 3.5%; imports dropped by 6.4%, less than expectations of - 7.2%.
- China's Caixin Manufacturing PMI improved in November to 51.8 versus market expectations of 51.2.
- Economic sentiment in the Euro-zone picked up in November (ZEW survey at - 1 vs. - 23.5 in October). The PMI Composite number was weaker at 50.3 (50.9 expected).
- In Germany, economic sentiment (ZEW survey) improved in November (- 2.1 vs. - 22.8 in October). The IFO Business Climate Index was stable at 95, in-line with expectations.
- US consumer confidence was 125.5 in November, below forecasts of 126.9.
- The Markit US Manufacturing PMI Index improved in November to 52.2, above forecasts. The Services PMI was higher at 51.6, above market expectations of 51.2.
- US payrolls in the private sector rose by 254K in November vs. forecasts of + 178K, with October numbers revised from 131K to 163K.

THE FED'S BALANCE SHEET HAS GROWN BY $293 BILLION SINCE THE END OF AUGUST

5.5%

ONE-YEAR EURO/DOLLAR VOLATILITY REACHES A RECORD LOW

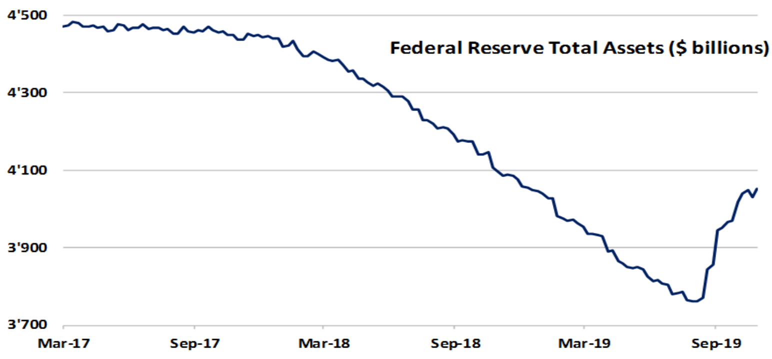
INVESTMENT PERSPECTIVE

November was a strong month for the equities of developed markets as the MSCI World Index, in local currencies, climbed by 3%. De-escalating trade tensions, merger and acquisition activity, accommodative central banks and some improving economic data contributed to push equity prices higher. In contrast, emerging market equities lagged significantly, partially due to a stronger dollar and to ongoing political tensions in Hong Kong and across other regions. Whereas EM equities initially rose on optimism over a "phase one" trade deal between the U.S. and China, they dropped subsequently and diplomatic tensions gradually resurfaced as Washington passed two bills supporting protesters in Hong Kong. Bond yields rose steeply during the first third of November with investors reducing exposure to safe haven assets; as a result the yield on the 10-year Treasury bond climbed from an end-October level of 1.69% to 1.94% before retreating to end the month at 1.78%.

The year-to-date equity rally has been quite remarkable and been driven, in large part, by the combined support of central banks across the world, as the growth of corporate earnings has tended to be anaemic. This has resulted in a significant re-rating of equity valuations and investors will be hoping that the recent pick-up of economic data will be followed by a sustainable, even if modest, rebound of economic activity in the months ahead; such an environment would contribute to boost the prospects for 2020 earnings and justify some of the optimism currently priced in equity markets.

Capital markets appear to be sanguine about the upcoming UK elections which are taking place on December 12th. The pound has been appreciating as the latest polls are indicating a lead of around 10% for Conservatives over Labour; if confirmed, this could mean a majority for Boris Johnson's party and a better chance of unblocking the current stalemate on Brexit.

THE FEDERAL RESERVE RESUMES ITS BALANCE SHEET EXPANSION



Source: Bloomberg L.P.

As shown in the chart above, the U.S. Federal Reserve has been expanding its balance sheet again. The central bank started buying Treasuries to inject liquidity into the money markets after the repo market experienced serious stress in September. Fed Reserve chairman Powell has repeatedly said that these purchases are not quantitative easing (QE) but markets appear to disagree. The recent expansion of the Fed's balance sheet has clearly supported the strong rally of equity markets observed in October and November.

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INVESTMENT STRATEGY

Following the performance of equities in October and November, our allocation towards equities is now close to being neutral. Our assessment that global equity markets are looking expensive in absolute terms and that a lot of positive news is already discounted hasn't changed, but the lack of more attractive asset classes means that equities could well continue to appreciate. The fact that economic data has started to show some signs of improvement will also encourage investors to buy more shares, so we are maintaining our neutral allocation for the time being.

Our equity exposure is well diversified across the different regions and the different strategies, but we currently see stronger upside potential in certain areas; Japanese growth stocks appear well positioned to outperform the broader Japanese market due to low valuations and better earnings prospects while small caps could also perform well if signs of a recovery were to be confirmed. The equities of emerging markets are also attractive based on their valuations and on their catch-up potential relative to developed markets.

MARKETS REMAIN VERY SENSITIVE TO ANY TRADE-RELATED NEWS

PORTFOLIO ACTIVITY/NEWS

November was a good month for the portfolios, largely the result of strong equity performances. The best contributions were provided by U.S. Small Caps and U.S. Value stocks as well as by the Healthcare sector fund. Several other equity funds also produced valuable returns while the detractors were few and far between. The early-month rise of bond yields did not last and the bond funds with longer durations suffered only minor monthly drawdowns. The alternative allocation made a modest positive contribution as did the dollar exposure for non-USD denominated portfolios.

We have recently added a new European Small Cap fund to our list. The fund's management team has been investing into the European small cap universe for many years as well as into the micro cap space; this knowledge of micro caps offers an additional source of investment ideas for the Small Cap fund. The fund has generated an outstanding track-record compared to peers and to its benchmark; it can also be qualified as being a genuine Small Cap fund in terms of the market capitalisations of the underlying positions; the fund has a 1.6bn EUR average weighted market cap vs. 3.1bn EUR for its peer group.

	End 2018	October 2019	November 2019	Month	2019
Equities					
S&P 500	2506.9	3037.6	3141.0	+ 3.4%	+ 24.2%
Euro Stoxx 50	3001.4	3604.4	3703.6	+ 2.8%	+ 23.4%
MSCI EM	965.7	1042.0	1040.1	- 0.2%	+ 7.7%
Yields					
UST 10-year	2.68%	1.69%	1.78%	+ 9bps	- 90bps
Bund 10-year	0.24%	- 0.41%	- 0.36%	+ 5bps	- 60bps
BBB EU	1.89%	0.65%	0.91%	+ 26bps	- 98bps
Currencies					
EUR/USD	1.147	1.115	1.102	- 1.2%	- 3.9%
USD/CHF	0.982	0.986	1.000	+ 1.4%	+ 1.8%
EUR/CHF	1.126	1.100	1.102	+ 0.2%	- 2.1%
GBP/USD	1.275	1.294	1.293	- 0.1%	+ 1.5%
Commodities					
CRB Index	169.8	176.9	176.7	- 0.1%	+ 4.1%
Oil (WTI)	USD 45.4	USD 54.2	USD 55.2	+ 1.8%	+ 21.6%
Gold	USD 1282	USD 1513	USD 1464	- 3.2%	+ 14.2%