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FORUM FINANCE GROUP

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MONTHLY NEWSLETTER

February 2020

KEY ECONOMIC DATA PUBLISHED IN JANUARY

- China's December exports rose by 7.6% (YoY) compared to forecasts of + 2.9%; imports increased by 16.3%, more than expectations of + 9.6%.
- China's Caixin Manufacturing PMI declined in January to 51.1, versus market expectations of 51.
- Economic sentiment in the Euro-zone rose in January (ZEW survey at + 25.6 vs. + 11.2 in December). The PMI Composite number was higher at 51.3 (51.1 expected).
- In Germany, economic sentiment (ZEW survey) jumped in January (26.7 vs. 10.7 in December). The IFO Business Climate Index was stable at 95.9, below expectations of 97.
- US consumer confidence was 131.6 in January, above forecasts of 128.
- The Markit US Manufacturing PMI Index declined in January to 51.9, less than forecasts. The Services PMI was higher at 53.4, above market expectations of 52.8.
- US payrolls in the private sector rose by 139K in December vs. forecasts of + 151K, with November numbers revised from 254K to 243K.

APPLE'S $1.4 TRILLION MARKET CAP SURPASSES THE WHOLE VALUE OF GERMANY'S DAX

1.50%

THE 10-YEAR U.S. TREASURY YIELD NEARS ITS 2019 LOW

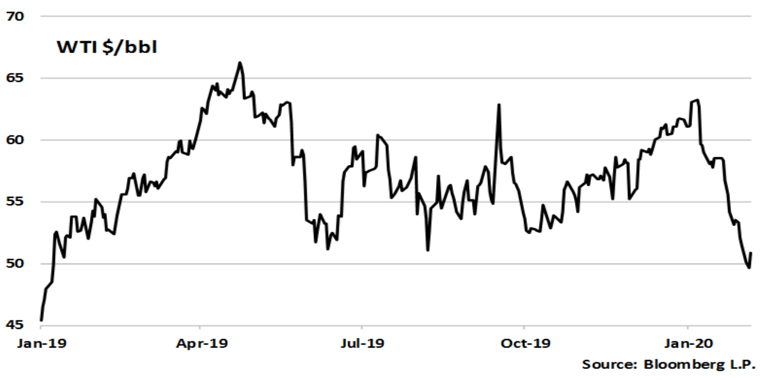
INVESTMENT PERSPECTIVE

January was an eventful month which ended with equity markets declining and with bond yields tumbling. The MSCI World Index, in local currencies, dropped by only 0.3% but this performance does not reflect the dispersion observed across the different regions; the resilience of US equities resulted in a modest 0.2% loss for the S&P 500 whereas the MSCI Emerging Market Index lost 4.7%. The 10-year Treasury and Bund yields fell by 41bps and 25bps respectively to end-January levels of 1.51% and - 0.44%. In the commodity space, prices were much weaker, with energy ones being hit particularly hard, while the price of gold logically appreciated on the back of falling bond yields.

Despite their monthly declines, equity markets proved to be resilient. They have already had to face an escalation of geopolitical tensions in the Middle East as well as the outbreak of a fast-spreading acute respiratory syndrome in China. These events failed to push equity prices significantly lower even if the levels of technical indicators showed that markets were overbought and in need of a breather. US growth stocks have continued to lead the way and were helped by the reporting of better-than-expected Q419 earnings. Out of the 300 S&P 500 companies having already reported their fourth-quarter earnings, 74% have reported positive earnings' surprises, with EPS (earnings per share) on track for a YoY growth of 3% compared to expectations of 1.9%. The reporting of European companies has also been supportive, with 55% posting positive sales surprises and 58% better-than-expected earnings.

Sovereign bond markets appear to reflect a more cautious outlook than equity markets. In relative terms, the decline of government bond yields in January exceeded the limited drawdown of equities and yields have not rebounded back to their early-year levels; in contrast, equity markets have rallied at the beginning of February and are back in positive territory.

THE PRICE OF OIL IS HIT BY WEAKER DEMAND CONCERNS



The early-year spike of oil prices, due to the escalation of US-Iran tensions, seems like a very distant memory. The chart shows that prices have since fallen by more than 20% as a result of concerns about a slowdown in oil demand, on the back of the coronavirus outbreak. According to Bloomberg, Chinese oil demand has dropped by around 3 million barrels a day, or 20% of its total consumption. Reports that Saudi Arabia was pushing OPEC and its allies for another cut in crude production failed to provide support for prices.

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INVESTMENT STRATEGY

As a reminder, we have started 2020 with a more dynamic positioning of the portfolios. In December, we had boosted the equity exposure to an overweight allocation and also added a high-octane emerging market corporate debt fund to the fixed-income asset class. This meant that we were carrying more risk in view of our constructive view on the global economy and on market conditions.

The outbreak of the coronavirus in the city of Wuhan, the capital of Central China's Hubei province, was an exogenous and unpredictable event; its ultimate impact is difficult to assess, but it will clearly affect China's first-quarter GDP, in spite of various supportive measures taken by the Chinese authorities. We nevertheless decided not to change the structure of the portfolios as we did not anticipate a severe drawdown of equity markets. At the time of writing, markets have recovered their positive trend and appear to be in agreement with our bullish view.

MARKETS HAVE SHOWN RESILIENCE IN FACE OF THE CORONAVIRUS

PORTFOLIO ACTIVITY/NEWS

January turned out to be quite a frustrating month as the portfolios had been performing well until the outbreak of the coronavirus in China. Unsurprisingly, emerging market and Asian exposures figured amongst the portfolios' largest detractors, whereas US growth stocks and US small caps produced significant contributions as did longer duration and convertible bonds. Two Japanese equity funds were hit particularly hard, unfairly in our view, and we continue to see value in this asset class. The new emerging market corporate debt fund, which had been approved in December, fared well and ended the month up by 2% in dollar terms.

Both convertible bond funds produced positive monthly returns and we consider this asset class to be a very attractive proposition in the current market conditions. It is also interesting to observe the differences between the market structure of the different regions. European convertibles generally have a higher credit rating and tend to be issued by more established companies whereas US ones are often rated high-yield and issued by faster growing companies in sectors such as technology and biotech.

	End 2018	December 2019	January 2020	Month	2020
Equities					
S&P 500	2506.9	3230.8	3225.5	- 0.2%	- 0.2%
Euro Stoxx 50	3001.4	3745.2	3640.9	- 2.8%	- 2.8%
MSCI EM	965.7	1114.7	1062.3	- 4.7%	- 4.7%
Yields					
UST 10-year	2.68%	1.92%	1.51%	- 41bps	- 41bps
Bund 10-year	0.24%	- 0.19%	- 0.44%	- 25bps	- 25bps
BBB EU	1.89%	0.97%	0.65%	- 32bps	- 32bps
Currencies					
EUR/USD	1.147	1.121	1.109	- 1.1%	- 1.1%
USD/CHF	0.982	0.967	0.963	- 0.3%	- 0.3%
EUR/CHF	1.126	1.086	1.069	- 1.5%	- 1.5%
GBP/USD	1.275	1.326	1.321	- 0.4%	- 0.4%
Commodities					
CRB Index	169.8	185.8	170.3	- 8.3%	- 8.3%
Oil (WTI)	USD 45.4	USD 61.1	USD 51.6	- 15.6%	- 15.6%
Gold	USD 1282	USD 1517	USD 1589	+ 4.7%	+ 4.7%