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FORUM FINANCE GROUP

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MONTHLY NEWSLETTER

April 2020

KEY ECONOMIC DATA PUBLISHED IN MARCH

- China's Caixin PMI Manufacturing rebounded in March to 50.1, versus market expectations of 48.
- China's February exports dropped by 17.2% (YoY) compared to forecasts of - 20.2%; imports fell by 4%, less than expectations of - 16.7%.
- Economic sentiment in the Euro-zone plunged in March (ZEW survey at - 49.5 vs. + 10.4 in February). The PMI Composite number collapsed from 51.6 to 31.4 (40 expected).
- In Germany, economic sentiment (ZEW survey) tumbled in March (- 49.5 vs. + 8.7 in February). The IFO Business Climate Index fell to 86.1, below expectations of 87.7.
- US consumer confidence was 120 in March, above forecasts of 110.
- The Markit US Manufacturing PMI Index declined in March to 49.2, above forecasts of 42.5. The Services PMI was much lower at 39.1, below market expectations of 43.2.
- US initial jobless claims exploded by a total of 10 million for the 2 weeks ending 28 March, from a previous pace of around 220K per week.

THE FEDERAL RESERVE SLASHES RATES BY 1.5% IN MARCH TO A TARGET RANGE OF 0% - 0.25%

$2 TRILLION

THE US VIRUS AID PACKAGE EQUALS ABOUT 10% OF US GDP

INVESTMENT PERSPECTIVE

March was the most dramatic month for capital markets since October 2008. The end-February plunge of equity markets spread across all the other asset classes and only very few managed to end the month with gains. Chaos was observed even in the markets of the safest assets, as a result of panic selling to raise cash at all costs; 10-year Treasury yields initially fell from 1.14% to an all-time low of 0.32% before jumping back up to 1.3% to then end March at a level of 0.67%. The price of gold dropped by 12% within seven trading days as margin calls forced investors to liquidate positions. Huge volatility was also observed in the currency markets, due to a rush for dollars, and the EUR/USD parity traded within a wide range of 1.06 - 1.15. The coronavirus Covid-19 pandemic was obviously the driver of market stress, but this was also compounded by the collapse of oil prices; Russia walked away from OPEC + discussions over a Saudi proposal for additional production cuts. This outcome resulted in oil prices dropping by more than 50% in March.

In contrast to what took place during the great financial crisis in 2008, fiscal and monetary authorities have been very quick to respond. Record-breaking aid packages and unprecedented support for financial markets have been announced. The Federal Reserve slashed interest rates by 1.5% to zero in two emergency moves and has committed to an unlimited expansion of its bond purchasing programs. US Congress voted in favour of a $2 trillion Coronavirus aid package and is already considering doing more. After a stuttering start in its answer to the crisis, the ECB also ramped up its asset purchase program, which now amounts to € 1’100 billion. In Europe, governments have taken a broad range of measures to support households and companies, destined in particular to prevent massive unemployment. On a less positive note for the Eurozone, a proposal to issue “Coronabonds” in order to drive down the borrowing costs for some of Europe’s most heavily affected countries was rejected by Germany, the Netherlands, Austria and Finland.

A MOST DRAMATIC MONTH FOR EQUITY MARKETS

The chart above illustrates the speed of the equity market correction from its February 19 peak; the S&P 500 Index plunged by 34% until March 23 before rebounding by 15.5% to end with a monthly loss of 12.5%. This was the fastest stock market correction in history and reflects the huge pressure on equity prices in reason of massive deleveraging, deep rebalancing across a range of strategies and outright selling. An end of month/quarter rebalancing in favour of equities was also likely the main driver of the late month rebound.

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INVESTMENT STRATEGY

Our allocation to equities has been significantly underweight since March 3rd when we covered half of their exposure by the purchase of an end of June S&P 500 Put, strike 3'000. The equity allocation of our balanced model portfolio was thus reduced to 23%; following the correction of equity markets, the net exposure to equities has now dropped to below 20%. For the time being we are maintaining this protection in view of extreme uncertainties. The impossibility to determine the length of widespread confinement measures, their ultimate impact on the economy as well as a total lack of visibility on future earnings are the key reasons for our cautious stance.

The management of the Put position is our main focus and, were markets to fall further, we are prepared to lift at least some of this protection. We are also willing to be proven wrong if equity markets were to rebound strongly, with the result that the hedge would then represent an opportunity cost for the portfolios. We have also been actively engaging with the managers of our funds to make sure they are not facing undue redemption pressures and, so far, we have been reassured that this has not been the case.

WE MAINTAIN A DEFENSIVE POSITIONING IN VIEW OF EXTREME UNCERTAINTY

PORTFOLIO ACTIVITY/NEWS

March was a very difficult month for the portfolios as all asset classes found themselves under huge pressure. With virtually nowhere to hide, we were relieved that we had partially hedged the equity exposure and that some of the alternative strategies (L/S, CTA & Global Macro) proved to be very resilient and able to generate positive monthly returns.

Some fixed income positions were badly hit, high yield credit and emerging market debt in particular, as market liquidity evaporated. On a more positive note, active managers have been much less impacted by redemptions than ETFs, which often traded at levels well below their net asset value. Bond markets are gradually returning to normal thanks to the actions of the central banks, but market conditions remain very challenging nevertheless for the riskier segments.The performance of equity funds was very heterogeneous. US value and frontier markets were the biggest detractors while Japanese equities, US Small Caps, Healthcare and US Growth managed to limit the drawdowns.

During the month, we opportunistically took advantage of the steep drop of the price of gold to reinitiate a position in physical gold for some portfolios. Negative real interest rates, currency debasement concerns and exploding budget deficits should all provide a supportive framework for real assets such as gold.

	End 2019	February 2020	March 2020	MTD	2020
Equities					
S&P 500	3230.8	2954.2	2584.6	- 12.5%	- 20.0%
Euro Stoxx 50	3745.2	3329.5	2786.9	- 16.3%	- 25.6%
MSCI EM	1114.7	1005.5	848.6	- 15.6%	- 23.9%
Yields					
UST 10-year	1.92%	1.15%	0.67%	- 48bps	- 125bps
Bund 10-year	- 0.19%	- 0.61%	- 0.47%	+ 14bps	- 28bps
BBB EU	0.97%	0.70%	1.99%	+ 129bps	+ 102bps
Currencies					
EUR/USD	1.121	1.103	1.103	+ 0%	- 1.6%
USD/CHF	0.967	0.965	0.961	- 0.4%	- 0.6%
EUR/CHF	1.086	1.065	1.060	- 0.5%	- 2.4%
GBP/USD	1.326	1.282	1.242	- 3.1%	- 6.3%
Commodities					
CRB Index	185.8	159.4	121.8	- 23.6%	- 34.4%
Oil (WTI)	USD 61.1	USD 44.8	USD 20.5	- 54.2%	- 66.4%
Gold	USD 1517	USD 1586	USD 1577	- 0.6%	+ 4.0%