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FORUM FINANCE

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MONTHLY NEWSLETTER

May 2020

KEY ECONOMIC DATA PUBLISHED IN APRIL

- China's Caixin PMI Manufacturing declined in April to 49.4, versus market expectations of 50.3.
- China's March exports dropped by 6.6% (YoY) compared to forecasts of - 13.9%; imports fell by 0.9%, less than expectations of - 10%.
- Economic sentiment in the Euro-zone rebounded in April (ZEW survey at + 25.2 vs. - 49.5 in March). The PMI Composite number collapsed from 29.7 to 13.5 (25 expected).
- In Germany, economic sentiment (ZEW survey) rebounded in April (+ 28.2 vs. - 49.5 in March). The IFO Business Climate Index fell to 74.3, below expectations of 80.
- US consumer confidence plunged to 86.9 in April, below forecasts of 87.9.
- The Markit US Manufacturing PMI Index dropped in April to 36.9, below forecasts of 38.3. The Services PMI was much lower at 27, below market expectations of 32.5.
- The total number of US initial jobless claims since the beginning of the coronavirus crisis has now risen to over 30 million.

THE WTI CONTRACT FOR MAY TRADED AT NEGATIVE PRICES CLOSE TO ITS EXPIRY DATE

+ 15.5%

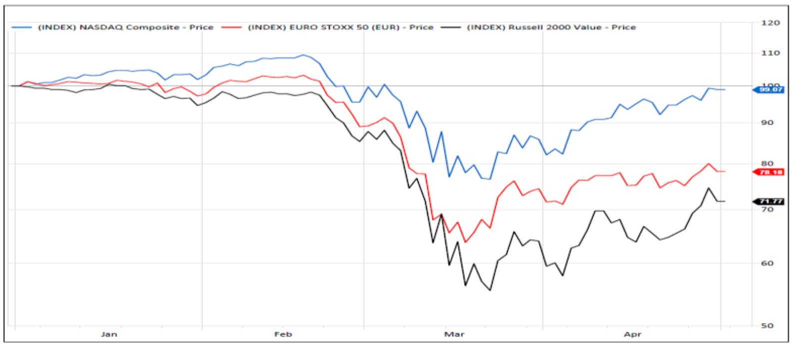
THE NASDAQ COMPOSITE HAS ITS BEST MONTH SINCE 2000

INVESTMENT PERSPECTIVE

The late-March rebound of equity markets was extended in spectacular fashion during April. The MSCI World Index recorded a 10.4% monthly gain, with US equities outperforming under the leadership of the stockmarket’s ubiquitous heavyweights. In contrast, the improvement of bond markets was more muted and sovereign debt yields ended the month slightly lower. Gold prices held on to strong early-month gains to end the month 7% higher. Oil markets were particularly eventful. The expiration of May WTI contracts triggered a stampede for holders of these contracts as they were unable to take physical delivery of oil; with US storage in Cushing being close to capacity, investors had no choice but to liquidate May contracts at all costs, with the result that prices traded as low as negative $38, an event which had never been observed before. Finally, currency markets regained their composure and the main FX crosses ended with small monthly changes.

The April rally of equities was largely a result of the massive support from the main central banks and from governments. Unprecedented liquidity was provided by the Federal Reserve and by the ECB in order to bring stability back into bond markets and to enable companies to access credit again. Markets were also driven by the evolution of the coronavirus pandemic; an increasing number of countries observed sufficiently positive results from their lockdown measures to start gradually lifting some of the restrictions in an attempt to restart their economies. Optimism over an anti-viral treatment also contributed to market euphoria, despite the publication of economic data showing that the fallout from the shutdown of the economy had been more severe than expected, already during the first quarter: US Q1 GDP contracted by 4.8% and Eurozone GDP by 3.8%. The Q1 earnings season is well advanced and, while it is difficult to characterize the extremely diverging set of results, markets have largely taken them into their stride. The most striking aspect of this reporting season has been the inability of companies to provide guidance in view of the extremely uncertain environment.

A HETEROGENEOUS REBOUND OF EQUITY MARKETS



The chart shows the year-to-date returns of the Nasdaq Composite, the Euro Stoxx 50 and the Russell 2000 Value. The outperformance of the Nasdaq Composite Index has been large and results mainly from its overweight exposure to the technology sector. The broader US equity market has also rebounded much more strongly than those of other regions, including Europe. Finally, “Value” has continued to underperform “Growth”, with the spread between the valuations of both investment styles reaching a multi-decade extreme.

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INVESTMENT STRATEGY

The strong rebound of equity markets, US ones in particular, would suggest that a more optimistic scenario, where both the economy and the profitability of companies recover quickly, is being priced in. One must however pay attention to what has been driving these gains and a disproportionate part of the outperformance of US equities has been provided by the five mega-caps: Facebook, Alphabet, Amazon, Apple and Microsoft. Were these stocks to weaken, the rest of the market would likely be dragged down as well.

The path of the global economy in the months ahead is very difficult to predict but we believe that a quick return to pre-pandemic activity levels is unrealistic. It will take a long time for certain sectors to fully recover and higher unemployment will affect consumer spending, the largest GDP component. We consider that equities are richly valued, in view of the elevated level of uncertainty, and we continue to exercise caution by holding on to our equity protection.

PORTFOLIO ACTIVITY/NEWS

April was a strong month for the portfolios which recovered part of their March losses with nearly all underlying positions recording positive returns. The largest contributions were provided by the US Value strategy, US and European Small Caps and US Growth funds. Japanese and Frontier markets equity funds also fared well. All bond funds ended the month with gains as the massive liquidity provided by central banks contributed to reestablish some stability in the fixed-income markets; high yield and senior secured debt rebounded well whereas convertible bonds have showed their resilience with limited year-to-date drawdowns. The investment into gold in March also proved to have been opportune.

Following their strong showing during March, some of the alternative strategies gave back some of their year-to-date gains. The biggest detractor for the portfolios was logically the Put position; its value consistently depreciated during the month as equity markets moved higher and as volatility decreased from extreme levels.

WE CONSIDER THAT EQUITY MARKETS ARE PRICING IN AN OVERLY OPTIMISTIC OUTLOOK

	End 2019	March 2020	April 2020	MTD	2020
Equities					
S&P 500	3230.8	2584.6	2912.4	+ 12.7%	- 9.9%
Euro Stoxx 50	3745.2	2786.9	2927.9	+ 5.1%	- 21.8%
MSCI EM	1114.7	848.6	924.9	+ 9.0%	- 17.0%
Yields					
UST 10-year	1.92%	0.67%	0.64%	- 3bps	- 128bps
Bund 10-year	- 0.19%	- 0.47%	- 0.59%	- 12bps	- 40bps
BBB EU	0.97%	1.99%	1.39%	- 60bps	+ 42bps
Currencies					
EUR/USD	1.121	1.103	1.096	- 0.7%	- 2.2%
USD/CHF	0.967	0.961	0.965	+ 0.4%	- 0.2%
EUR/CHF	1.086	1.060	1.058	- 0.2%	- 2.6%
GBP/USD	1.326	1.242	1.259	+ 1.4%	- 5.1%
Commodities					
CRB Index	185.8	121.8	117.2	- 3.8%	- 36.9%
Oil (WTI)	USD 61.1	USD 20.5	USD 18.8	- 8.3%	- 69.2%
Gold	USD 1517	USD 1577	USD 1687	+ 7.0%	+ 11.2%