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FORUM FINANCE
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MONTHLY NEWSLETTER

June 2020

KEY ECONOMIC DATA PUBLISHED IN MAY

- China's Caixin PMI Manufacturing rose in May to 50.7, versus market expectations of 49.8.
- China's April exports increased by 3.5% (YoY) compared to forecasts of - 16.6%; imports fell by 14.2%, more than expectations of - 10%.
- Economic sentiment in the Euro-zone rebounded in May (ZEW survey at + 46 vs. + 25.2 in April). The PMI Composite number rebounded from 13.6 to 30.5 (forecast of 27).
- In Germany, economic sentiment (ZEW survey) rebounded in May (+ 51 vs. + 28.2 in April). The IFO Business Climate Index rose to 79.5, above expectations of 78.6.
- US consumer confidence rose to 86.6 in May, below forecasts of 87.8.
- The Markit US Manufacturing PMI Index rebounded in May to 39.8, above forecasts of 37.8. The Services PMI was much higher at 36.9, above market expectations of 30.
- The total number of US initial jobless claims since the beginning of the coronavirus crisis has now risen to over 40 million.

THE PRICE OF A BARREL OF BRENT OIL MORE THAN DOUBLED IN MAY

$10 TRILLION

THE POTENTIAL PRICE TAG OF THE GLOBAL COVID-19 BAILOUT

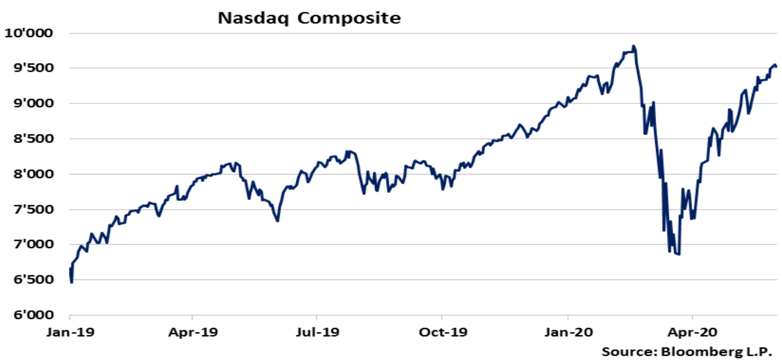
INVESTMENT PERSPECTIVE

Global equity markets extended their rally in May and proved to be resilient to any negative news. Emerging markets underperformed as Chinese and Hong Kong stocks were negatively impacted by rising US-China tensions and Indian stocks were hit by COVID-19 concerns. Government debt markets were quite stable while HY and EM debt performed strongly during the second half of the month. In spite of this significant risk-on environment, the price of gold appreciated modestly, in part the result of a weaker US dollar. A proposal from Brussels for a €750 billion recovery fund, earmarked for the struggling economies of southern Europe, contributed to a strong end to the month for European assets, with the euro recording a 1.3% monthly gain against the US dollar. Finally, oil prices staged a spectacular rebound following a turbulent month of April; the price of a WTI barrel climbed by over 88% thanks to the combined effects of a recovery of demand and significant production cuts.

The acceleration of the re-opening of Western economies has been the main driver for risk assets; the markets' belief that central banks are prepared to provide more support and that additional fiscal packages will be rolled out are other reasons behind the powerful ongoing rally. The markets have, at least so far, brushed aside the significant rise of tensions between China and the United States. The US has blamed China for the spreading of the COVID-19 coronavirus and also accused China of not respecting the terms of the 1997 Hong Kong handover agreement by imposing a new security law. Markets also appear to be currently ignoring all economic fundamentals, concerns over a second wave of the coronavirus, uncertainty over the timeline and availability of a vaccine, trade threats and near-term corporate profitability.

A lot has been written recently about the outperformance of the Growth style over Value this year, as well as over a much longer period, but there are some signs that Value could be starting to catch up a little. Sectors such as Energy, Financials, Industrials, Materials and Autos have been picking up steam and outperforming other sectors such as Consumer Staples and Healthcare which have been more resilient since the beginning of the year.

THE NASDAQ COMPOSITE IS NEARLY BACK TO ITS PEAK LEVEL



The chart shows that the Nasdaq Composite has nearly recovered all of its early-year losses and is close to its February 19 record level. The performance of the index has been driven by its five mega-caps (Apple, Microsoft, Amazon, Alphabet and Facebook) whose combined weight adds up to 38% of the index.

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INVESTMENT STRATEGY

We did not change the positioning of our portfolios in May and have kept in place the Put protection for around half of the equity allocation. The maturity and the strike of the Put option have been adjusted after we took some profit on the Put option initially bought in early-March. The result since this switch has been for the value of the portfolios to benefit from the higher appetite for risk assets and for the declining value of the Put option to represent a small opportunity cost. We feel very comfortable with the current positioning as we remain somewhat wary of the one-way direction of equity markets and of their increasingly demanding valuations.

The rally of equities has been accompanied by a rally of high yield and emerging market bonds since the middle of May; we had maintained our exposures to both asset classes after the market correction. The valuations of both asset classes are attractive in view of the high level of spreads and default expectations which are close to maximum levels observed on a historic basis.

PORTFOLIO ACTIVITY/NEWS

Portfolios continued to make up lost ground in May as nearly all the underlying positions ended the month with positive returns. Within the equity asset class, Japanese equities, US and European Small Caps as well as Growth stocks produced the highest contributions. Significant contributions were also generated by various fixed-income exposures with emerging markets' corporate bonds, global convertible bonds and high yield credit performing the best. Some alternative strategies which had posted strong performances during the correction of the markets ended the month with limited negative performances. We cut our exposure to the Risk Premia hedge fund strategy because of a combination of disappointing performance and of the strategy's dwindling assets under management.

In a context of rallying equity markets and lower volatility, the biggest detractor for the portfolios was logically the Put position which serves as a protection for part of the equity allocation. During the month, we rolled over our position by selling the S&P 500 June 3'000 Put option in favour of a S&P 500 September 2'750 one.

EQUITY MARKETS APPEAR TO BE DEFYING THE LAWS OF GRAVITY

	End 2019	April 2020	May 2020	MTD	2020
Equities					
S&P 500	3230.8	2912.4	3044.3	+ 4.5%	- 5.8%
Euro Stoxx 50	3745.2	2927.9	3050.2	+ 4.2%	- 18.6%
MSCI EM	1114.7	924.9	930.4	+ 0.6%	- 16.5%
Yields					
UST 10-year	1.92%	0.64%	0.65%	+ 1bps	- 127bps
Bund 10-year	- 0.19%	- 0.59%	- 0.45%	+ 14bps	- 26bps
BBB EU	0.97%	1.39%	1.41%	+ 2bps	+ 44bps
Currencies					
EUR/USD	1.121	1.096	1.110	+ 1.3%	- 1.0%
USD/CHF	0.967	0.965	0.962	- 0.3%	- 0.5%
EUR/CHF	1.086	1.058	1.067	+ 0.9%	- 1.7%
GBP/USD	1.326	1.259	1.234	- 2.0%	- 6.9%
Commodities					
CRB Index	185.8	117.2	132.2	+ 12.8%	- 28.8%
Oil (WTI)	USD 61.1	USD 18.8	USD 35.5	+ 88.4%	- 41.9%
Gold	USD 1517	USD 1687	USD 1730	+ 2.5%	+ 14.0%