



MONTHLY NEWSLETTER

September 2020

KEY ECONOMIC DATA PUBLISHED IN AUGUST

- China's Caixin PMI Manufacturing rose in August to 53.1, versus market expectations of 52.5.
- China's July exports increased by 7.2% (YoY) compared to forecasts of - 0.6%; imports fell by 1.4%, compared to expectations of + 1%.
- Economic sentiment in the Euro-zone improved in August (ZEW survey at + 64 vs. + 59.6 in July). The PMI Composite number dropped from 54.9 to 51.6 (forecast of 55.3).
- In Germany, economic sentiment (ZEW survey) rebounded in August (+ 71.5 vs. + 59.3 in July). The IFO Business Climate Index rose to 92.6, above expectations of 92.3.
- US consumer confidence fell to 84.8 in August, below forecasts of 93.
- The Markit US Manufacturing PMI Index rebounded in August to 53.1, above forecasts of 52. The Services PMI was much higher at 54.8, above market expectations of 51.
- The total number of US continuing jobless claims amounts to 14.5 million compared to 1.8 million before the beginning of the crisis.

THE FED HAS SHIFTED ITS POLICY TOWARDS AN AVERAGE INFLATION TARGETING REGIME

\$2 TRILLION APPLE BECOMES THE FIRST US COMPANY TO REACH THIS MARKET CAP MILESTONE

INVESTMENT PERSPECTIVE

Global equity markets performed strongly in August with the MSCI World Index in local currencies climbing by 6.1%. The US stock market had its best August since 1986 as the S&P 500 jumped by 7% and fully erased its losses from the coronavirus pandemic to hit new record highs. European stocks underperformed (+ 3.1% for the Euro Stoxx 50) and still remain below the levels observed in early June. Sovereign debt markets experienced a quite volatile month and the yields of long maturity bonds ended the month higher. The depreciation of the US dollar was extended throughout August and the euro ended the month with a 1.3% gain.

Once again US equity markets were characterized by the significant out-performance of the Nasdaq indexes and of the technology sector in particular; the Nasdaq Composite Index rose by 9.6% while the S&P Technology Sector Index climbed by 11.8%. Outstanding performances within the market were recorded by companies such as Tesla (+74%), Salesforce (+ 40%), Facebook (+ 16%) and by the biggest of them all, Apple (+ 21%). It was also revealing that the level of implied volatility of the US market, measured by the VIX Index, rose in tandem with equities during the second half of the month. Simultaneous increases in equity and volatility gauges are unusual and the move in the volatility measure may have been the result of investors chasing the rally.

As widely expected, Federal Reserve Chair Jerome Powell announced a major shift in the way the central bank aims to achieve maximum employment and stable prices. During the virtual Jackson Hole Symposium, Powell said that the Fed would adopt a form of average inflation targeting regime, meaning that inflation will be allowed to go "moderately above" its 2% target after periods of persistently low pricing pressures. The Fed also signalled that employment can run stronger without setting off unwanted spikes in inflation. This means the Fed won't be raising rates anytime soon and would not increase rates or brace for a rise in inflation even as employment levels strengthen.

THE RELENTLESS RISE OF THE NASDAQ GIANTS



The chart above shows that the pace of the rise of the NYSE FANG+ Index accelerated in August. The gains of the US indexes have been increasingly driven by a smaller number of stocks, meaning that the breadth of the market has been declining, a trend considered to be a sign of market weakness. The combined weightings of Apple, Microsoft, Amazon, Facebook and Alphabet are now above 24% of the S&P 500 Index, compared to less than 20% before the beginning of the coronavirus pandemic.



INVESTMENT STRATEGY

The summer months have seen financial markets continuing to claw back their February and March losses. We did not change the structure of our portfolios but have added to our portfolio protection by covering the short September S&P Put option and by initiating a new January S&P Put spread. Our assessment of the current market conditions is torn between the logic of rising asset prices as a result of massive liquidity injections and our rising concerns about stretched valuations. This largely explains why we feel it is critical to hold some protection as a way of limiting the damage that a potential reversal of prevailing market trends would trigger.

We are getting closer to reducing our US dollar underweight for non-USD denominated portfolios. The Dollar Index has been depreciating since its peak observed in March and the move appears to be getting long in the tooth. The positioning of traders on the dollar is extremely short and thus reduces the likelihood of further immediate depreciation. For the EUR/USD parity our target for some dollar buying is around the 1.20 level.

WE HAVE EXTENDED OUR PUT SPREAD STRATEGY

PORTFOLIO ACTIVITY/NEWS

August was a very strong month for the portfolios as only a small minority of underlying funds ended the month with modest negative returns. Within the equity asset class, US, Japanese and Frontier Market equities as well as European Small Caps produced the highest contributions. Significant contributions were also generated by a Long/Short equity strategy, European Value equities and by a thematic fund which was launched in the summer. Two fixed-income funds with longer duration and the trend-following strategy were small detractors, resulting largely from the rising yields of sovereign debt.

During the past month, we extended our Put spread strategy from a September expiry to a January one. We also approved a fund whose investment universe includes the world's most valuable brands (global, upcoming and digital brands) as well as a Biotech fund. We have also purchased recently a thematic fund which invests into equities benefiting from secular growth opportunities, with a focus on the technology, healthcare and renewable energy sectors. The manager's research and investment approach is original as it draws scientific, technological and industrial research together with financial analysis. Their process starts with the generation of ideas by scientists within their field of competence before financial analysts then conduct traditional financial research.

	End 2019	July 2020	August 2020	MTD	2020
Equities					
S&P 500	3230.8	3271.1	3500.3	+ 7.0%	+ 8.3%
Euro Stoxx 50	3745.2	3174.3	3272.5	+ 3.1%	- 12.6%
MSCI EM	1114.7	1078.9	1101.5	+ 2.1%	- 1.2%
Yields					
UST 10-year	1.92%	0.53%	0.70%	+ 17bps	- 122bps
Bund 10-year	- 0.19%	- 0.53%	- 0.40%	+ 13bps	- 21bps
BBB EU	0.97%	0.84%	0.84%	+ 0bps	- 13bps
Currencies					
EUR/USD	1.121	1.178	1.194	+ 1.3%	+ 6.5%
USD/CHF	0.967	0.913	0.904	- 1.0%	- 6.5%
EUR/CHF	1.086	1.076	1.079	+ 0.3%	- 0.6%
GBP/USD	1.326	1.309	1.337	+ 2.2%	+ 0.8%
Commodities					
CRB Index	185.8	143.7	153.2	+ 6.6%	- 17.5%
Oil (WTI)	USD 61.1	USD 40.3	USD 42.6	+ 5.8%	- 30.3%
Gold	USD 1517	USD 1976	USD 1968	- 0.4%	+ 29.7%

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