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FORUM FINANCE
1994

MONTHLY NEWSLETTER

October 2020

KEY ECONOMIC DATA PUBLISHED IN SEPTEMBER

- China's Caixin PMI Manufacturing was flat in September at 53, in-line with market expectations of 53.1.
- China's August exports increased by 9.5% (YoY) compared to forecasts of + 7.3%; imports fell by 2.1%, compared to expectations of + 0.2%.
- Economic sentiment in the Euro-zone improved in September (ZEW survey at + 73.9 vs. + 64 in August). The PMI Composite number dropped from 51.9 to 50.4 (forecast of 51.8).
- In Germany, economic sentiment (ZEW survey) rose in September (+ 77.4 vs. + 71.5 in August). The IFO Business Climate Index rose to 93.4, below expectations of 93.8.
- US consumer confidence rose to 101.8 in September, above forecasts of 88.5.
- The Markit US Manufacturing PMI Index was stable in September at 53.2, in-line with forecasts. The Services PMI was slightly lower at 54.6, as expected.
- US payrolls in the private sector rose by 877K in September compared to forecasts of + 913K, with August numbers revised from 1’027K to 1’022K.

THE EUROZONE COMPOSITE PMI DROPS TO 50.4 IN SEPTEMBER DUE TO THE WEAKNESS OF SERVICES

- 20%

THE FALL OF APPLE’S STOCK PRICE IN EARLY SEPTEMBER

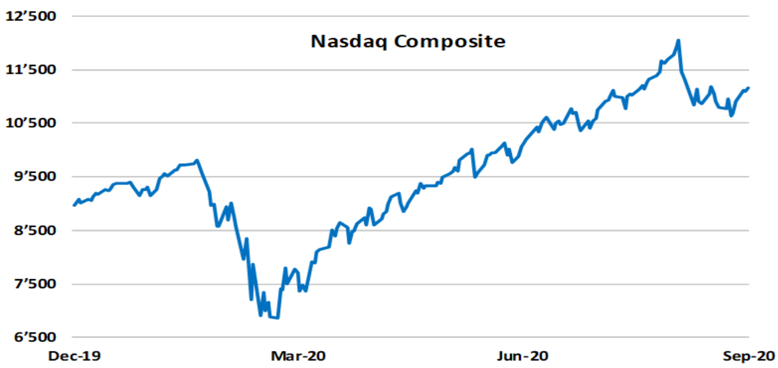
INVESTMENT PERSPECTIVE

For the first time since the selloff observed in March, global equity markets produced a negative monthly return, with the MSCI World Index in local currencies dropping by 3% in September. US stocks underperformed as the momentum rally led by the technology mega-caps collapsed suddenly; this was reflected by the 5.2% monthly decline of the Nasdaq Composite. Demand for safe haven assets benefited the sovereign debt markets as well as the US dollar, whereas high yield bonds were negatively impacted by the widening of credit spreads. The stronger dollar contributed to extend the profit taking on gold prices, observed since the beginning of August, and also hurt the whole commodities’ asset class.

Year-to-date lagging stocks did not benefit from the profit-taking on the 2020 big winners as no real factor rotation was observed in the equity markets. The rise of the number of new Covid-19 cases, in Europe in particular, continued to weigh on the prices of already depressed stocks in some of the services’ sectors. Weaker-than-expected Eurozone PMI Services data confirmed that the economic recovery already appears to be stalling as more restrictions are being introduced across a number of European countries. In the US, the lack of any agreement on a new fiscal stimulus was a headwind for equity markets as was the rise of political tensions ahead of the upcoming US elections.

The final quarter of the year could prove to be particularly eventful and market volatility is likely to remain elevated. The outcomes of the US election and of the Brexit negotiations are just two of the issues that could have a meaningful bearing on markets on both sides of the Atlantic. A contested result of the US presidential election would be the worst result and would only add to the already high level of uncertainty. Other key ongoing issues include the timing of a new US fiscal stimulus as well as the approval of a widely accepted Covid-19 vaccine.

THE MOMENTUM RALLY HIT BY PROFIT-TAKING



Source: Bloomberg L.P.

The chart above shows that the rally of the Nasdaq Composite came to a sudden halt at the beginning of September. The index dropped by some 12% before ending the month on a stronger note. Year-to-date star performers such as Tesla and Apple fell by 34% and 20% respectively as investors took profits following the spectacular rise of these stocks since March. The slide of the markets did not last long however as the mega caps rebounded quickly.

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INVESTMENT STRATEGY

The correction of equity markets observed in September does not appear to have fundamentally altered investors' perspective on the markets. The equity asset class remains the obvious choice in the light of massive monetary support and hopes of additional fiscal stimulus. These factors should not however conceal the fact that the level of uncertainty on a number of issues remains elevated. This largely explains why we continue to hold some optionality in the portfolios to limit the potential damage of a more pronounced reversal of trends. The latest economic data, especially in Europe, are confirming that the recovery is not going to be smooth and that forecasts are prone to be subject to significant revisions. While having only a very limited impact on the markets at this stage, this could change were the economic outlook to deteriorate even more.

Our equity exposure is well diversified. We prefer to spread the risk across a number of regions and strategies rather than rely too much on one particular investment style or on one region. This approach served us well last month as our allocation to Japanese equities provided a significant positive contribution whereas most other equity positions ended the month with negative returns.

PORTFOLIO ACTIVITY/NEWS

September was a slightly negative month for the portfolios due to weaker equity markets. A European value fund was the worst detractor followed by US Growth, US Small Caps and emerging market corporate debt. The trend-following strategy was also a detractor, in large part due to the rebound of the US dollar. The best contributions were provided by Japanese equities with stellar outperformances recorded by two funds. An Asian equity fund also brought a positive contribution as did the US dollar for portfolios referenced in other currencies. The fixed income exposure produced mixed results with high yield and emerging market debt underperforming.

During the past month, we decided to add to the exposure to Asian equities by investing into a China-focused fund. This was financed by trimming some fixed-income positions with limited upside. The Chinese equity market has proved to be resilient and generally less correlated to other equity markets. The lower impact of the coronavirus disease on the Chinese economy relatively to the rest of the world has been one of the drivers of the outperformance of Chinese equities. This factor combined with reasonable valuations should continue to be supportive.

MARKETS ARE LIKELY TO BE VOLATILE IN THE WEEKS AHEAD

	End 2019	August 2020	September 2020	MTD	2020
Equities					
S&P 500	3230.8	3500.3	3363.0	- 3.9%	+ 4.1%
Euro Stoxx 50	3745.2	3272.5	3193.6	- 2.4%	- 14.7%
MSCI EM	1114.7	1101.5	1082.0	- 1.8%	- 2.9%
Yields					
UST 10-year	1.92%	0.70%	0.68%	- 2bps	- 124bps
Bund 10-year	- 0.19%	- 0.40%	- 0.52%	- 12bps	- 33bps
BBB EU	0.97%	0.86%	0.80%	- 6bps	- 17bps
Currencies					
EUR/USD	1.121	1.194	1.172	- 1.8%	+ 4.5%
USD/CHF	0.967	0.904	0.921	+ 1.9%	- 4.8%
EUR/CHF	1.086	1.079	1.079	+ 0%	- 0.6%
GBP/USD	1.326	1.337	1.292	- 3.4%	- 2.6%
Commodities					
CRB Index	185.8	153.2	148.5	- 3.1%	- 20.1%
Oil (WTI)	USD 61.1	USD 42.6	USD 40.2	- 5.6%	- 34.2%
Gold	USD 1517	USD 1968	USD 1886	- 4.2%	+ 24.3%