FFG
FORUM FINANCE
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MONTHLY NEWSLETTER

November 2020

KEY ECONOMIC DATA PUBLISHED IN OCTOBER

- China's Caixin PMI Manufacturing rose to 53.6 in October, above market expectations of 52.8.
- China's September exports increased by 9.9% (YoY) in-line with forecasts; imports rose by 13.2%, well above expectations of + 0.2%.
- Economic sentiment in the Euro-zone fell in October (ZEW survey at + 52.3 vs. + 73.9 in September). The PMI Composite number dropped from 50.4 to 50 (forecast of 49.5).
- In Germany, economic sentiment (ZEW survey) dropped in October (+ 56.1 vs. + 77.4 in September). The IFO Business Climate Index fell to 92.7, below expectations of 93.
- US consumer confidence dropped to 100.9 in October, below forecasts of 101.8.
- The Markit US Manufacturing PMI Index was stable in October at 53.3, in-line with forecasts. The Services PMI was better than expected, at 56.
- 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 SERVICES PMI DROPS TO 46.9 IN OCTOBER

-31%

THE PLUNGE OF SAP’S SHARE PRICE IN OCTOBER

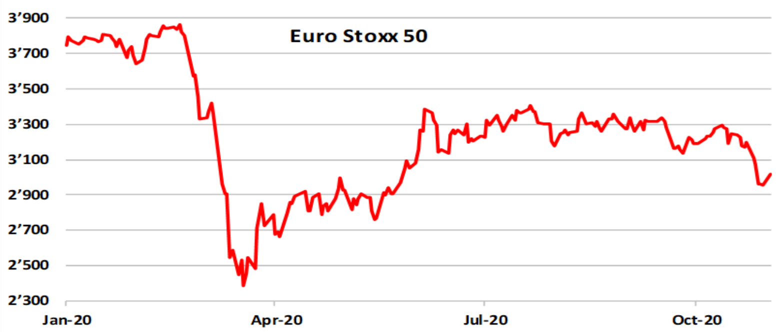
INVESTMENT PERSPECTIVE

October stood up to its reputation of often being a volatile month for equity markets. Following a positive first half, most equity indices took a turn for the worse and ended the month with losses. European markets underperformed, with the region’s economic outlook being hurt by the introduction of much tougher restrictions to fight against a surge of coronavirus cases. The Euro Stoxx 50 plunged by 7.4% compared to a 3.1% drop for the MSCI World Index in local currencies; emerging markets outperformed strongly as they recorded a 2% monthly gain. Oil prices were hit by demand concerns and fell by 11% over the month. Credit and emerging spreads were stable whereas Bunds and the US dollar logically benefited from their safe haven status.

Markets had to contend with a rising level of uncertainty towards the end of October and volatility levels ended the month considerably higher. On top of the looming issue of the November 3rd US general elections, the hopes for another US fiscal stimulus were dashed and European governments had to react vigorously to the fast spreading of the pandemic. Also, a better-than-expected Q320 earnings reporting season failed to provide additional support for the markets as a lot of good news had already been discounted. The Asian region continued to be the brighter spot for equity markets in reason of its solid economic recovery and a limited impact of the coronavirus pandemic.

At the time of writing this newsletter, results from the US election are yet to deliver a conclusive outcome and the counting of votes could take longer than normal due to an above-average number of postal ballots. Markets have thus far reacted with calm despite the threat of protracted judicial battles by both sides. This reaction could be explained by the likelihood of a divided Congress, meaning that the potential for significant changes to tax policy and to the regulatory framework for sectors such as financials and energy may be reduced.

A BAD MONTH OF OCTOBER FOR THE EURO STOXX 50



Source: Bloomberg L.P.

European equity markets performed poorly in October, reflected by the 7.4% fall of the Euro Stoxx 50 Index. As shown above, European equities had been range-bound since early June until the middle of September. They have since declined by more than 10%, with the technology and healthcare sectors being large detractors. SAP, until recently the Euro Stoxx 50’s largest constituent, plunged by 31% in October following the publication of its Q320 results; the markets were spooked by the company’s weaker outlook and by its cautious comments on spending and investment by businesses.

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INVESTMENT STRATEGY

As we had expected, equity markets have proven to be more volatile during the recent weeks in large part due to factors mentioned previously. This has translated into increasing concerns about the pace of the economic recovery, in Europe in particular. Several countries have reintroduced lockdowns, and even if they are not as strict as during the spring, they will be detrimental to the near-term economic outlook. In the light of elevated uncertainty, we have reduced our equity exposure back to neutral and boosted our cash position. With the portfolios continuing to hold some protection by way of a January Put spread, we feel well positioned to face a period where volatility could remain well above average.

Within the equity allocation, the exposure to Asia remains overweight and we feel confident about the resilience of Asian markets. The region’s capital markets should continue to benefit from foreign inflows, supportive economic data and lower correlation with European and US markets. The correlation of high-yield bonds with equity markets has also been decreasing recently, a positive development for the portfolios in terms of diversification.

PORTFOLIO ACTIVITY/NEWS

October was a slightly negative month for the portfolios, in large part due to weaker equity markets. The drawdown was limited, however, thanks to strong alpha generation and to the positive contribution from the Put spread. European equity funds were the worst detractors even if they fared better than their respective benchmarks. The largest positive portfolio contributions were provided by emerging, frontier and Chinese equity funds. European investment-grade bonds was another positive contributor as was the US dollar for non-USD portfolios.

Towards the end of the month, we trimmed some of the better performing positions to lock in profits and also cut some underwhelming funds to bring our equity allocation closer to neutral.

This extraordinary year has seen record levels of dispersion within the markets, whether between sectors, strategies, regions and individual stocks. For that reason, it has been most satisfying to observe that many of our active managers have added significant value through their stock picking and their allocations to the different sectors.

MARKETS CONTINUE TO WAIT FOR MORE US FISCAL SUPPORT

	End 2019	September 2020	October 2020	MTD	2020
Equities					
S&P 500	3230.8	3363.0	3270.0	- 2.8%	+ 1.2%
Euro Stoxx 50	3745.2	3193.6	2958.2	- 7.4%	- 21.0%
MSCI EM	1114.7	1082.0	1103.5	+ 2.0%	- 1.0%
Yields					
UST 10-year	1.92%	0.68%	0.87%	+ 19bps	- 105bps
Bund 10-year	- 0.19%	- 0.52%	- 0.63%	- 11bps	- 44bps
BBB EU	0.97%	0.80%	0.63%	- 17bps	- 34bps
Currencies					
EUR/USD	1.121	1.172	1.165	- 0.6%	+ 3.9%
USD/CHF	0.967	0.921	0.917	- 0.4%	- 5.2%
EUR/CHF	1.086	1.079	1.068	- 1.1%	- 1.7%
GBP/USD	1.326	1.292	1.295	+ 0.2%	- 2.3%
Commodities					
CRB Index	185.8	148.5	144.7	- 2.5%	- 22.1%
Oil (WTI)	USD 61.1	USD 40.2	USD 35.8	- 11.0%	- 41.4%
Gold	USD 1517	USD 1886	USD 1879	- 0.4%	+ 23.9%