FFG
FORUM FINANCE
1994

MONTHLY NEWSLETTER

December 2020

KEY ECONOMIC DATA PUBLISHED IN NOVEMBER

- China's Caixin PMI Manufacturing rose to 54.9 in November, above market expectations of 53.5.
- China's October exports increased by 11.4% (YoY) above forecasts; imports rose by 4.7%, below expectations of + 8.4%.
- Economic sentiment in the Euro-zone fell in November (ZEW survey at + 32.8 vs. + 52.3 in October). The PMI Composite number dropped from 50 to 45.3 (forecast of 45.6).
- In Germany, economic sentiment (ZEW survey) dropped in November (+ 39 vs. + 56.1 in October). The IFO Business Climate Index fell to 90.7, above expectations of 90.1.
- US consumer confidence dropped to 96.1 in November, below forecasts of 98.
- The Markit US Manufacturing PMI Index rose in November to 56.7, above forecasts. The Services PMI was better than expected, at 57.7.
- US payrolls in the private sector rose by 906K in October compared to forecasts of + 680K, with September numbers revised from 877K to 892K.

GROWTH UNDERPERFORMS VALUE BY MOST SINCE 2001

+ 18.1%

NOVEMBER WAS A RECORD MONTH FOR THE EURO STOXX 50

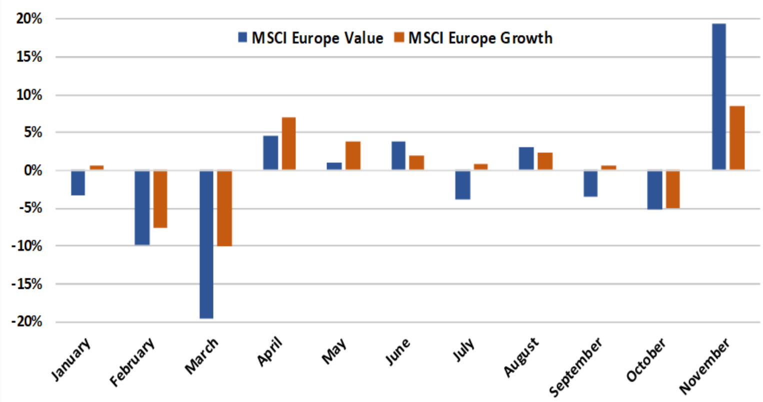
INVESTMENT PERSPECTIVE

November was a record-breaking month for global stockmarkets. The MSCI World Index in local currencies surged by 11.8%, its best month since it was created in 1990. European markets outperformed, with the Euro Stoxx 50 Index rising by 18.1%, while US markets hit record highs. The positive vaccine announcements by several pharmaceutical companies were the key drivers for the strength of the equity markets. The appetite for risky assets was also reflected by much tighter credit and emerging market debt spreads, higher commodity prices and a depreciation of the US dollar. The price of gold weakened by 5.4% as demand for defensive assets subsided, even if sovereign debt yields ended the month with relatively limited changes.

The series of Covid-19 vaccine breakthroughs and Joe Biden's victory in the US presidential election removed two quite significant tail risks from the market. Anticipations of a rapid economic rebound in 2021 were a major boost for the stocks of companies having been the worst affected by tight restrictions to limit the spreading of the virus. This was reflected by the rotation into the more cyclical sectors and by an outperformance of small caps. Markets also responded favourably to the outcome of the US elections as a still to-be-confirmed divided Congress should prevent radical reforms. The election of Joe Biden was also perceived as positive for international relationships and for global trade following a period of unpredictability and elevated tensions during Donald Trump's presidency.

Optimism over a strong economic recovery was best reflected by the rally of oil in anticipation of higher demand for fuel products. WTI oil prices rose by over 26% during the past month to reach a level of $45 per barrel compared to $50 before the correction that took place in March and April.

A SPECTACULAR MONTH FOR THE VALUE STYLE



Source: Bloomberg L.P.

The ongoing underperformance of the Value style compared to Growth has been well covered. As shown above, the MSCI Europe Value index has lagged the MSCI Europe Growth index in most of this year's months. In November however, European value stocks made a spectacular comeback as they out-performed European growth ones by close to 11%, in large part the result of positive Covid-19 vaccine announcements. Banks, energy and automobiles were some of the best performing sectors.

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INVESTMENT STRATEGY

Our concerns over a potentially volatile period have proved to be unfounded as equity markets rallied in a spectacular fashion during November. The portfolios benefited from their broad diversification again as the largely out of favour value positions contributed the most during the past month. 2020 will be remembered for many reasons in the capital markets, but the speed at which market factors have changed during certain periods has been breath-taking. Our equity exposure is back to being overweight as a result of a new investment and of market performance. While we continue to be wary of the current valuations of equity markets, other driving forces are overwhelming and likely to push prices even higher.

Within fixed income, we consider emerging market debt to be one of the most the attractive asset classes and we have reinforced our exposure into EM corporate bonds. Emerging market assets should benefit from inflows, the depreciation of the dollar as well as from the cyclical recovery in 2021.

MARKETS ARE DRIVEN BY AN ANTICIPATION OF WIDESPREAD VACCINATION PROGRAMMES

PORTFOLIO ACTIVITY/NEWS

November was a strong month for the portfolios, with all the underlying positions, except gold, producing positive monthly returns. The highest contributions were provided by funds managed according to a value approach. One European fund gained 27% as it benefited mainly from its exposure to banks and oil. All European funds contributed well as did the US Value fund, the Japanese funds, and Small Caps overall. Within fixed-income, EM corporate debt, high yield and convertible bonds were the outperformers, while equity long/short was the best alternative strategy. The detractors proved to be gold and the US dollar for non-USD portfolios.

Towards the end of the month, we invested into a new fund focused on real assets. The fund's types of assets include infrastructure, specialist property, renewables and other alternatives such as music royalties. These kind of assets benefit from well-defined income streams and long-term contracts. This investment solution can be characterized by its resilience, low volatility and low market beta.

The latest addition to our list of funds is a long/short credit fund primarily investing into US high yield corporate bonds. The manager has demonstrated his ability to protect the portfolio during market drawdowns as well as to capture a large part of the upside of the asset class. The prevailing market conditions appear as well-suited for this type of investment approach.

	End 2019	October 2020	November 2020	MTD	2020
Equities					
S&P 500	3230.8	3270.0	3621.6	+ 10.8%	+ 12.1%
Euro Stoxx 50	3745.2	2958.2	3492.5	+ 18.1%	- 6.7%
MSCI EM	1114.7	1103.5	1205.1	+ 9.2%	+ 8.1%
Yields					
UST 10-year	1.92%	0.87%	0.84%	- 3bps	- 108bps
Bund 10-year	- 0.19%	- 0.63%	- 0.58%	+ 5bps	- 39bps
BBB EU	0.97%	0.63%	0.46%	- 17bps	- 51bps
Currencies					
EUR/USD	1.121	1.165	1.193	+ 2.4%	+ 6.4%
USD/CHF	0.967	0.917	0.909	- 0.9%	- 6.0%
EUR/CHF	1.086	1.068	1.084	+ 1.5%	- 0.2%
GBP/USD	1.326	1.295	1.332	+ 2.9%	+ 0.5%
Commodities					
CRB Index	185.8	144.7	160.1	+ 10.6%	- 13.8%
Oil (WTI)	USD 61.1	USD 35.8	USD 45.3	+ 26.5%	- 25.9%
Gold	USD 1517	USD 1879	USD 1777	- 5.4%	+ 17.1%