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FORUM FINANCE

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MONTHLY NEWSLETTER

February 2021

KEY ECONOMIC DATA PUBLISHED IN JANUARY

- China's Caixin PMI Manufacturing dropped to 51.5 in January, below market expectations of 52.5.
- China's December exports increased by 18.1% (YoY) above forecasts; imports rose by 6.5%, more than expectations of + 5.3%.
- Economic sentiment in the Euro-zone rose in January (ZEW survey at + 58.3 vs. + 54.4 in December). The PMI Composite number dropped from 49.1 to 47.5 (forecast of 47.5).
- In Germany, economic sentiment (ZEW survey) rose in January (+ 61.8 vs. + 55 in December). The IFO Business Climate Index fell to 90.1, below expectations of 91.8.
- US consumer confidence improved to 89.3 in January, as expected.
- The Markit US Manufacturing PMI Index rose in January to 59.2, above forecasts. The Services PMI was also better than expected, at 57.5.
- US payrolls in the private sector dropped by 95K in December compared to forecasts of + 115K.

US Q4 2020 EARNINGS ARE WELL ABOVE FORECASTS

+ 1’625%

THE JANUARY GAINS OF GAMESTOP, THE MOST TALKED ABOUT STOCK IN 2021!

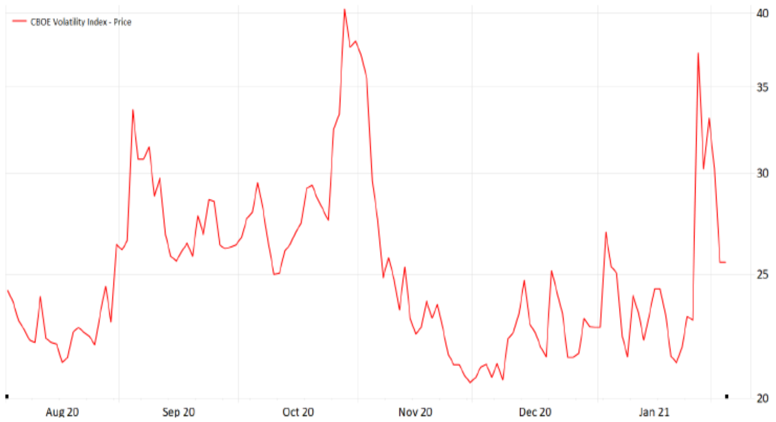
INVESTMENT PERSPECTIVE

Equity markets got off to a good start in 2021 but ended January on a much weaker note. This weakness resulted mainly from concerns over the rollout of vaccines and from hedge funds slashing their exposures in a wave of volatility. The MSCI World Index in local currencies dropped by 0.8%, with Asian markets outperforming under the leadership of mega-caps such as Tencent, Alibaba or TSMC. Government bond markets also ended in negative territory; the yields of 10-year Treasuries climbed from 0.92% to 1.07% as markets priced in higher US federal spending and inflation expectations. This was triggered by the Democrats’ win of both remaining Senate seats in the January 5th Georgia run-off. With 50 senators on both sides of the aisle, the deciding vote of Vice-President Kamala Harris gives the smallest of majorities to the Democrats, boosting their chances of passing larger fiscal stimulus.

The 4Q 2020 earnings season is in full swing and 65% of the S&P 500's market cap have reported their results, at the time of writing. Earnings have surpassed estimates by 18.5% in aggregate, with 81% of companies beating analysts’ projections. Revenues have also beaten estimates by an average of 3.2%, with 74% of companies announcing positive surprises. These results did not represent such a strong support for equity markets, however. Many companies beating both on revenues and earnings underperformed the market, surprisingly. This muted reaction was likely due to cautious outlooks amid an economic environment which still remains uncertain.

The late-month underperformance of European equities can be explained, in part, by the negative developments relative to Covid-19. A disappointing start to the vaccination rollout, tighter restrictions and vaccine supply issues all contributed to dampen optimism over the reopening of economies.

A SPIKE OF VOLATILITY AS HEDGE FUND CUT THEIR EXPOSURES



As retail traders in chat rooms targeted heavily shorted stocks, some hedge funds found themselves under fire due to short squeezes on names such as GameStop. To cover their losses from short sales they also had to sell some of their favourite long stocks. As shown above, market volatility spiked to 37.5, as a result of heavy trading activity in stocks and stock options. Hedge funds’ gross exposures were cut at the fastest rate since October 2014, according to data compiled by Goldman Sachs’ prime-brokerage unit.

INVESTMENT STRATEGY

Our core scenario targets a strong economic rebound from the second quarter onwards and we have positioned the portfolios accordingly. Our equity allocation is overweight, and our fixed income exposure is focused on the dynamic segments of the market. We like emerging market debt, high yield credit and convertible bonds, whilst investment grade bonds are heavily underweight. Hedge funds and gold are the main portfolio diversifiers, and the level of cash is low. For non-USD portfolios, the dollar exposure is underweight.

Within the equity allocation, we have a broad diversification across regions, investment styles and market capitalisations. Equity markets are increasingly skittish and last year proved that even well-entrenched trends can reverse on a dime. That is why we remain allocated to both Growth and Value styles, with Value benefiting from depressed valuations, both on a relative and an absolute basis. From a regional perspective, we have reinforced our China exposure and continue to favour emerging and Japanese markets. Finally, we are still exposed to Frontier markets which offer significant catch-up potential in view of low valuations and solid fundamentals.

MARKETS ARE AT RISK FROM A SLOW VACCINE ROLLOUT AND NEW VIRUS VARIANTS

PORTFOLIO ACTIVITY/NEWS

January ended up being slightly negative for the portfolios in spite of a good start to the year. The number of contributors and detractors was split down the middle. The main equity contributions were provided by Chinese equities, US Small Caps, the multi-thematic fund and emerging markets; value funds were the main equity detractors. In the fixed income allocation, high yield and emerging market debt generated gains whereas investment grade funds detracted from the performance.

After a long hiatus, we have reinitiated a position in UK equities. We had neutralized our exposure to UK assets in view of elevated political uncertainty following the Brexit vote. This has proven to be a wise decision as UK equities have underperformed significantly over the last years. The UK is now, however, the most underweight region globally by asset allocators; the discount of UK equity market valuations relative to the rest of the world is also close to record levels. These factors are just some of the reasons that could trigger a catch-up of the UK equities in the year ahead. We have invested into a fund that we have known for a long time; its strategy is based on a value approach and on active management.

	End 2019	December 2020	January 2021	MTD	2021
Equities					
S&P 500	3230.8	3756.1	3714.2	- 1.1%	- 1.1%
Euro Stoxx 50	3745.2	3552.6	3481.4	- 2.0%	- 2.0%
MSCI EM	1114.7	1291.3	1329.6	+ 3.0%	+ 3.0%
Yields					
UST 10-year	1.92%	0.92%	1.07%	+ 15bps	+ 15bps
Bund 10-year	- 0.19%	- 0.57%	- 0.52%	+ 5bps	+ 5bps
BBB EU	0.97%	0.44%	0.47%	+ 3bps	+ 3bps
Currencies					
EUR/USD	1.121	1.222	1.214	- 0.7%	- 0.7%
USD/CHF	0.967	0.885	0.890	+ 0.6%	+ 0.6%
EUR/CHF	1.086	1.081	1.081	+ 0.0%	+ 0.0%
GBP/USD	1.326	1.367	1.371	+ 0.3%	+ 0.3%
Commodities					
CRB Index	185.8	167.8	174.2	+ 3.8%	+ 3.8%
Oil (WTI)	USD 61.1	USD 48.5	USD 52.2	+ 7.6%	+ 7.6%
Gold	USD 1517	USD 1898	USD 1848	- 2.6%	- 2.6%