FFG
FORUM FINANCE
1994

MONTHLY NEWSLETTER

March 2021

KEY ECONOMIC DATA PUBLISHED IN FEBRUARY

- China's Caixin PMI Manufacturing dropped to 50.9 in February, below market expectations of 51.5.
- China's January-February exports jumped by 60.6% (YoY) above forecasts of 39%; imports rose by 22.2%, more than expectations of + 16%.
- Economic sentiment in the Eurozone rose in February (ZEW survey at + 69.6 vs. + 58.3 in January). The PMI Composite number rose from 47.8 to 48.8 (forecast of 48).
- In Germany, economic sentiment (ZEW survey) improved in February (+ 71.2 vs. + 61.8 in January). The IFO Business Climate Index rose to 92.4, above expectations of 90.5.
- US consumer confidence improved to 91.3 in February, above forecasts.
- The Markit US Manufacturing PMI Index dipped in February to 58.6, below forecasts. The Services PMI was better than expected, at 59.8.
- US payrolls in the private sector rose by 6K in January compared to forecasts of + 98K, with December numbers downgraded from - 95K to - 204K.

THE 10-YEAR BTP-BUND SPREAD DROPS BELOW 1%

1.50%

A SUDDEN SPIKE OF 10-YEAR TREASURY YIELDS

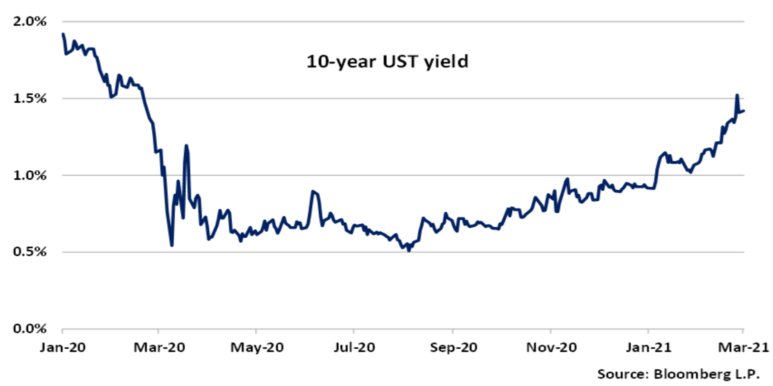
INVESTMENT PERSPECTIVE

Equity markets performed well in February even if they did end the month off their highs due to the negative impact of fast-rising bond yields. European equities outperformed US and EM ones, in large part thanks to a powerful rotation out of last year's winners into value and cyclical stocks. The rise of bond yields gathered steam during the month in reason of higher inflation expectations; with US yields climbing at a faster pace, the dollar appreciated. In this environment, gold prices were under constant downwards pressure as they dropped by more than 6% for the month. Other commodities, however, continued to benefit from expectations for a strong economic recovery and for a solid demand related to infrastructure projects. Oil prices rose by close to 18% and industrial metals such as copper, zinc and aluminum rocketed.

The factor rotation was very much in evidence during the past month. Last year's unloved sectors, financials and energy in particular, have been the winners so far in 2021 to the detriment of growth stocks and long duration assets. The rapid rise of long-term bond yields has had a disproportionate impact on highly valued stocks while the steepening of the yield curve has contributed to the rebound of the financial sector. Small caps have also outperformed large ones, at times significantly; in the US, the Russell 2000 Value index was up by 14.9% at the end of February, compared to a modest gain of 1.5% for the S&P 500. With the strong rise of commodity prices, these market trends are to be expected ahead of a cyclical economic rebound.

The swearing-in of former ECB President, Mario Draghi, as the new Italian prime minister was well received by investors, unsurprisingly. The 10-year BTP-Bund yields' spread dropped to a low of 0.9% from a high of 1.22% in January. His appointment will contribute to reduce the level of risks within the eurozone in view of Italy's massive debt burden.

THE YIELD BACKUP OF US TREASURIES



The chart shows that the gradual rise of 10-year Treasury yields observed since last August accelerated in February. 10-year yields ended the month 0.33% higher at 1.4% after breaching the level of 1.5%. The rise of inflation expectations, due to base effects, extensive fiscal stimulus and spending catch-up potential, was the main driver behind this trend. Real interest rates remain in deep negative territory, nevertheless, and the issue of whether higher inflation will prove to be only transitory or structural is hotly disputed.

INVESTMENT STRATEGY

We do not believe that the rise of bond yields represents a major threat for equities at this stage. Even if the ECB and the Federal Reserve have failed to fully reassure investors about their commitment to push back against higher yields, their policies will remain very accommodative. Higher bond yields are reflective of optimism about the outlook in anticipation of the reopening of economies. A stabilisation of yields would support risky assets, and this remains our preferred scenario. We therefore maintain our overweight equity exposure and our overall low duration fixed income positioning. Our investment grade debt allocation is very underweight, and we do not expect to increase it in the near term, as we continue to favour the more dynamic segments of the market.

The ongoing rotation towards pro-cyclical stocks is likely to be extended in the current market environment. Even if the rollout of vaccines across Europe has disappointed, other countries have been faring better and markets continue to look beyond the current headwinds. The recent strength of the US dollar is also more likely to fade and our positioning for non-USD denominated portfolios is still underweight.

A FURTHER RISE OF YIELDS COULD THREATEN THE EQUITY RALLY

PORTFOLIO ACTIVITY/NEWS

February was a positive month for the portfolios, mainly thanks to the performance of equity positions. The best contributions were provided by equity funds investing according to a Value approach across a number of regions, including frontier markets. All alternative strategies also contributed positively to the return of the portfolios. Growth equity funds, Chinese equities and bond funds with longer duration proved to be the main detractors. Finally, the stronger US dollar boosted the performance of EUR and CHF denominated portfolios.

The recent period has shown that markets have become increasingly prone to sudden trend reversals. It is therefore illusory to believe that one can continuously react to these shifts by adjusting the portfolios' positioning. That is why we have a broad diversification across regions, investment styles and market capitalisations. As an illustration, we maintained our exposure to value funds and to frontier markets last year despite their significant underperformance at the time. Over the last quarters, value funds have been performing strongly whereas our frontier markets fund has had a solid start to 2021. This results in large part to its exposure to Vietnam, which is up by over 31% YTD at the time of writing.

	End 2020	January 2021	February 2021	MTD	2021
Equities					
S&P 500	3756.1	3714.2	3811.2	+ 2.6%	+ 1.5%
Euro Stoxx 50	3552.6	3481.4	3636.4	+ 4.5%	+ 2.4%
MSCI EM	1291.3	1329.6	1339.3	+ 0.7%	+ 3.7%
Yields					
UST 10-year	0.92%	1.07%	1.40%	+ 33bps	+ 48bps
Bund 10-year	- 0.57%	- 0.52%	- 0.26%	+ 26bps	+ 31bps
BBB EU	0.44%	0.47%	0.67%	+ 20bps	+ 23bps
Currencies					
EUR/USD	1.222	1.214	1.208	- 0.5%	- 1.1%
USD/CHF	0.885	0.890	0.909	+ 2.1%	+ 2.7%
EUR/CHF	1.081	1.081	1.097	+ 1.5%	+ 1.5%
GBP/USD	1.367	1.371	1.393	+ 1.6%	+ 1.9%
Commodities					
CRB Index	167.8	174.2	190.4	+ 9.3%	+ 13.5%
Oil (WTI)	USD 48.5	USD 52.2	USD 61.5	+ 17.8%	+ 26.8%
Gold	USD 1898	USD 1848	USD 1734	- 6.2%	- 8.6%