FFG
FORUM FINANCE
1994

MONTHLY NEWSLETTER

April 2021

KEY ECONOMIC DATA PUBLISHED IN MARCH

- China's Caixin PMI Manufacturing dropped to 50.6 in March, below market expectations of 51.1.
- China's January-February exports jumped by 60.6% (YoY) above fore-casts of 39%; imports rose by 22.2%, more than expectations of + 16%.
- Economic sentiment in the Euro-zone rose in March (ZEW survey at + 74 vs. + 69.6 in February). The PMI Composite number rose from 48.8 to 52.5 (forecast of 49.1).
- In Germany, economic sentiment (ZEW survey) improved in March (+ 76.6 vs. + 71.4 in February). The IFO Business Climate Index rose to 96.6, above expectations of 93.2.
- US consumer confidence improved to 109.7 in March, above forecasts.
- The Markit US Manufacturing PMI Index rose in March to 59.1, below forecasts. The Services PMI was in-line with expectations, at 60.4.
- US payrolls in the private sector rose by 780K in March compared to forecasts of + 525K, with February numbers upgraded from + 465K to + 558K.

VOLKSWAGEN'S POWER DAY CONVINCES INVESTORS

+ 7.8%

A STRONG MONTH FOR THE EURO STOXX 50

INVESTMENT PERSPECTIVE

Equity markets performed well in March despite the headwind represented by rising long-term Treasury yields. European equities outperformed, with the Euro Stoxx 50 climbing by 7.8%, whereas emerging markets struggled as the prices of Chinese mega-caps continued to slide. US Treasury yields extended their early year rise, in contrast to those of Bunds; 10-year Treasury yields increased by 34bps to end the month at 1.74% while same-maturity Bunds saw their yields drop by 3bps. The Fed's lack of action diverged significantly from the more pro-active stance of the ECB. March was also a strong month for the dollar which benefited from the widening interest rate differential and the faster growth prospects for the US economy.

Even if developed equity markets ended the month with strong returns, it wasn't all plain sailing. Growth stocks got off to a poor start as the Fed's chair, Jerome Powell, failed to alleviate fears over rising yields and higher inflation expectations. He tended to downplay the rise in yields as he did not consider it to be "disorderly" and did not provide any indication that the central bank would be pushing back against the ongoing trend. Powell also insisted that he sees inflation pressures as being transitory and that the Fed would be patient before starting to hike rates. On its side, the ECB took a different approach as it stepped up the weekly pace of its emergency bond-buying programme to its highest level for over three months. This action contributed to rein in the rise of Eurozone bond yields and reassure investors of the bank's ongoing support.

The Volkswagen Group presented its technology roadmap for batteries and charging up to 2030 during its first Power Day on March 15. The company will invest into six EV Battery "Gigafactories" which will be established by the end of the decade. It will also pursue the expansion of the public fast-charging net-work globally to make the electric car attractive and more viable as it ramps up its production of electric vehicles. The prices of Volkswagen preferred and ordinary shares rocketed following these announcements, rising by 44% and 60% respectively during the month of March.

THE EURO STOXX 50 TRADES ABOVE ITS PRE-COVID LEVEL

Source: Bloomberg L.P.

The chart shows that the Euro Stoxx 50 Index has now surpassed its February 2020 pre-Covid level. Under the leadership of cyclical sectors, including banks, autos, oil & gas and industrials, the index rose by 7.8% in March and by 10.3% for the first quarter. Strong contributions from other sectors such as telecoms and technology have also helped the European equity market to perform well.

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INVESTMENT STRATEGY

We remain committed to our overweight equity allocation. The rise of bond yields appears to have paused and strong economic data is supporting our positive economic outlook for the quarters ahead. We still consider the equity asset class to offer the best risk/reward and we are positioned accordingly. Our fixed income allocation, focused on the more dynamic segments of the market, has proven to be very resilient in view of the rising bond yields; emerging market debt, high yield, convertible bonds and senior secured loans represent our key exposures in this asset class. We also view the recent appreciation of the dollar as temporary and the dollar allocation for non-USD portfolios is still underweight. Despite a disappointing performance of gold prices since the beginning of the year we continue to hold a position in the precious metal as a source of diversification and as a hedge against the more extreme market risks.

In March we increased our equity exposure by adding a new equity fund investing into mining equities. This investment allows the portfolios to be more exposed to the commodity space, with a special focus on speciality metals. The demand for metals such as cobalt and lithium as well as industrial metals such as copper should remain sustained, as it is driven by transformative changes of the global economy and huge infrastructure investments.

THE RALLY OF RISK ASSETS APPEARS LIKELY TO CONTINUE

PORTFOLIO ACTIVITY/NEWS

March was a positive month for the portfolios thanks to the performance of most equity positions. The best contributions were provided by both Value and Growth equity funds as the rally broadened across different investment styles. Additional contributions were provided by the aternative strategies whereas the China equity fund had a disappointing month, as did an EM fund investing according to a Growth approach. Our long duration bond fund also ended the month with a modest negative performance due to the impact of rising long-term Treasury yields.

We approved three new funds during the past month. The first one invests into a range of mining equities, including both gold and speciality metals' miners, in particular those needed for the improvement of battery technology, for the production of electric vehicles and for the decarbonisation of the economy. This strategy fully integrates a wide range of ESG considerations as part of its investment process. The other two funds invest according to an "Impact" approach. Their objective is to invest into companies that provide solutions to the current challenges faced by the planet, as defined by the United Nations' 17 Sustainable Development Goals (SDGs). These funds invest across environmental and societal themes, including the circular bio-economy, the transition to less wasteful economies as well as fairer ones. Both funds are run by leading asset managers which benefit from a high level of expertise and extensive resources in this domain. At a time when a lot of "greenwashing" is taking place in the industry of finance, it is even more critical to select these types of investments most diligently.

	End 2020	February 2021	March 2021	MTD	2021
Equities					
S&P 500	3756.1	3811.2	3972.9	+ 4.2%	+ 5.8%
Euro Stoxx 50	3552.6	3636.4	3919.2	+ 7.8%	+ 10.3%
MSCI EM	1291.3	1339.3	1316.4	- 1.7%	+ 1.9%
Yields					
UST 10-year	0.92%	1.40%	1.74%	+ 34bps	+ 82bps
Bund 10-year	- 0.57%	- 0.26%	- 0.29%	- 3bps	+ 28bps
BBB EU	0.44%	0.67%	0.68%	+ 1bps	+ 24bps
Currencies					
EUR/USD	1.222	1.208	1.173	- 2.9%	- 4.0%
USD/CHF	0.885	0.909	0.944	+ 3.9%	+ 6.7%
EUR/CHF	1.081	1.097	1.107	+ 0.9%	+ 2.4%
GBP/USD	1.367	1.393	1.378	- 1.1%	+ 0.8%
Commodities					
CRB Index	167.8	190.4	185.0	- 2.9%	+ 10.3%
Oil (WTI)	USD 48.5	USD 61.5	USD 59.2	- 3.7%	+ 22.1%
Gold	USD 1898	USD 1734	USD 1708	- 1.5%	- 10.0%