FFG
FORUM FINANCE
1994

# MONTHLY NEWSLETTER

June 2021

## KEY ECONOMIC DATA PUBLISHED IN MAY

- China's Caixin PMI Manufacturing rose to 52 in May, above market expectations of 51.8.
- China's April exports jumped by 32.3% (YoY) above forecasts of 25%; imports rose by 43.1%, slightly below expectations of + 43.9%.
- Economic sentiment in the Euro-zone jumped in May (ZEW survey at + 84 vs. + 66.3 in April). The PMI Composite number rose from 53.8 to 56.9 (forecast of 54.8).
- In Germany, economic sentiment (ZEW survey) rose in May (+ 84.4 vs. + 70.7 in April). The IFO Business Climate Index rose to 99.2, above expectations of 98.2.
- US consumer confidence softened to 117.2 in May, below forecasts.
- The Markit US Manufacturing PMI Index rose in May to 62.1, above forecasts. The Services PMI was higher than expectations, at 70.1.
- US payrolls in the private sector rose by 218K in April compared to forecasts of + 893K, with March numbers downgraded from + 780K to + 708K.

## GOLD PRICES RISE BY 7.8% IN MAY

## + 4.2%

## HEADLINE US CPI SPIKES TO A 13-YEAR HIGH

## INVESTMENT PERSPECTIVE

In May equity markets added modest gains to the strong returns recorded during the previous months. The dispersion of performances between regions and investment styles was less pronounced than observed previously, even if growth stocks lagged again. Markets were dominated by inflation concerns and, somewhat surprisingly, equities proved to be much more volatile than bonds, even if higher levels of volatility proved fleeting. Commodity markets extended their rally, with gold prices making up all of their early-year losses and oil prices continuing to rise. In forex markets, the dollar continued to depreciate further against most currencies, with the EUR/USD parity rising by 1.7%, thus bringing it back to its end-2020 level.

Inflation data were much discussed during the past month and were also a source of market volatility, for growth stocks in particular. US headline CPI in April rose by 4.2% year-on-year, its highest level since September 2008, and well above forecasts of 3.6%. Rising inflation expectations have raised the question of whether the Federal Reserve would be forced to adjust its monetary policy sooner than currently anticipated. The Fed unveiled a new policy framework last year, whereby it would be targeting average inflation of 2% rather than a set target of 2%, as previously. This new approach allows the central bank to tolerate higher inflation temporarily, especially as its current priority is a strong job market over inflation fears. The Fed has been adamant that higher inflation would be transitory only and not structural, but it is premature to come to any definitive conclusion on this issue. Bond markets reacted very calmly to the high inflation numbers, however, and seem prepared to trust the Fed, at least for the time being. There is no doubt that it will be very challenging for the central bank to communicate any change of its monetary policy without upsetting the markets.

### A STRONG REBOUND OF GOLD PRICES

Source: Bloomberg L.P.

The chart shows that gold had a very strong month of May as its price climbed by 7.8% to end the month at $1'907 an ounce. The precious metal benefited from stable bond yields, a weaker dollar, and signs of accelerating inflation. Gold was also supported by increased interest from hedge funds and other large speculators which boosted their net-long position to the highest since early January. The extreme volatility observed on cryptocurrencies the past month could also have boosted demand for gold, according to some investors.

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## INVESTMENT STRATEGY

Equity markets have continued to grind higher even if a rising number of investors appear to be having doubts about the sustainability of the rally. The main market concerns include higher inflation risks, the need for the Federal Reserve to open discussions on tapering and the fact that markets have already priced in a lot of positive news. We agree that a lack of near-term catalysts could result in some consolidation for equity markets following their strong start to the year. We have, however, been somewhat reassured by the bursting of several market bubbles and we continue to observe cheap valuations across some sectors and regions. Our allocation to equities is diversified and well suited to market rotations.

We continue to be exposed to convertible bonds. Following an outstanding performance in 2020, the asset class has been more challenged this year for several reasons, including cheaper volatility, rising interest rates, weakness of growth sectors and excessive new issuance. We are confident that the asset class remains attractive as valuations are below their long-term average, new issuance offers new thematic opportunities and it is a portfolio diversifier.

## PORTFOLIO ACTIVITY/NEWS

May was a positive month for the portfolios, mainly thanks to the strong performance of gold and to the value investment style. Excluding gold, the best contributions were provided by frontier markets, European and UK value, mining equities as well as emerging market corporate debt. Generally speaking, it was a quiet month for fixed-income assets which produced only marginal contributions. The worst detractors were US Growth Small Caps and one of our Japanese equity funds. So far this year, we continue to observe an outperformance of last year’s laggards while the opposite is true for the biggest alpha generators in 2020.

In the past month, we took advantage of the correction of our multi-thematic fund to boost its allocation. With its exposure to growth stocks, the fund has had a challenging start to 2021 but the medium to long term drivers of the strategy remain compelling. We also increased our mining equities position in view of attractive valuations and as a hedge against rising inflation risks.

## CENTRAL BANKS ARE UNDER INCREASING PRESSURE

| | End 2020 | April 2021 | May 2021 | MTD | 2021 |
|---|---|---|---|---|---|
| **Equities** | | | | | |
| S&P 500 | 3756.1 | 4181.2 | 4204.1 | + 0.5% | + 11.9% |
| Euro Stoxx 50 | 3552.6 | 3974.7 | 4039.5 | + 1.6% | + 13.7% |
| MSCI EM | 1291.3 | 1347.6 | 1376.2 | + 2.1% | + 6.6% |
| **Yields** | | | | | |
| UST 10-year | 0.92% | 1.63% | 1.59% | - 4bps | + 67bps |
| Bund 10-year | - 0.57% | - 0.20% | - 0.19% | + 1bps | + 38bps |
| BBB EU | 0.44% | 0.72% | 0.78% | + 6bps | + 34bps |
| **Currencies** | | | | | |
| EUR/USD | 1.222 | 1.202 | 1.223 | + 1.7% | + 0.1% |
| USD/CHF | 0.885 | 0.913 | 0.899 | - 1.5% | + 1.6% |
| EUR/CHF | 1.081 | 1.098 | 1.099 | + 0.1% | + 1.7% |
| GBP/USD | 1.367 | 1.382 | 1.421 | + 2.8% | + 4.0% |
| **Commodities** | | | | | |
| CRB Index | 167.8 | 199.8 | 205.7 | + 3.0% | + 22.6% |
| Oil (WTI) | USD 48.5 | USD 63.6 | USD 66.3 | + 4.2% | + 36.7% |
| Gold | USD 1898 | USD 1769 | USD 1907 | + 7.8% | + 0.5% |