

MONTHLY NEWSLETTER

September 2021

KEY ECONOMIC DATA PUBLISHED IN AUGUST

- China's Caixin PMI Manufacturing dropped to 49.2 in August, below market expectations of 50.1.
- China's July exports jumped by 19.3% (YoY) below forecasts of 21.1%; imports rose by 28.1%, also below expectations of + 33.5%.
- Economic sentiment in the Euro-zone dropped in August (ZEW survey at + 42.7 vs. + 61.2 in July). The PMI Composite number declined from 60.2 to 59.5 (forecast of 60).
- In Germany, economic sentiment (ZEW survey) dropped in August (+ 40.4 vs. + 63.3 in July). The IFO Business Climate Index fell to 99.4, below expectations of 100.4.
- US consumer confidence plunged to 113.8 in August, below forecasts.
- The Markit US Manufacturing PMI Index dipped in August to 61.2, below forecasts. The Services PMI was lower than expectations, at 55.2.
- US payrolls in the private sector rose by 703K in July compared to forecasts of + 700K, with June numbers being revised upwards from + 662K to + 769K.

A SEVENTH STRAIGHT POSITIVE MONTH FOR GLOBAL EQUITIES

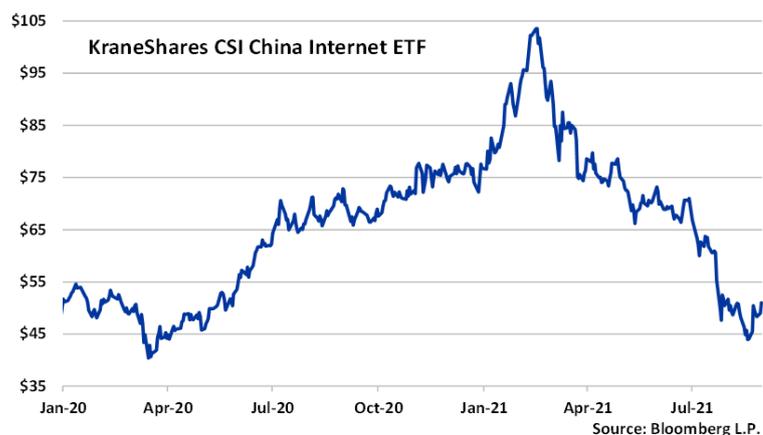
+ 20.4%
THE YTD PERFORMANCE
OF THE S&P 500 INDEX

INVESTMENT PERSPECTIVE

Global equity markets extended their relentless winning run, as they recorded their seventh straight positive month in August. Despite a short mid-month wobble, equities confirmed their resilience to bad news, which included a resurgence of Covid-19 cases, concerns over the Fed's tapering plans, the ongoing regulatory crackdown of Chinese companies, and a most dramatic withdrawal of US forces out of Afghanistan. The MSCI World Index in local currencies gained 2.5%, with the different regions posting quite comparable performances, thanks to a late-month rebound of emerging markets. G7 bond yields ended the month higher after initially dropping, with 10-year Treasuries even trading briefly below 1.20%. August was a very volatile month for commodities, with industrial metals being under severe pressure and oil prices only recovering part of their early-month losses over concerns about weaker demand.

The key event for markets in August was the much-awaited speech of the Federal Reserve's chair, Jerome Powell, at the Jackson Hole symposium. Investors were looking for clues on when the tapering of the central bank's monthly purchases might begin. Powell delivered a trademark speech where he soothed both equity and bond markets, which ended August on a strong note. Powell remained unclear about when tapering would begin and devoted much time to why he feels current high inflation is likely to pass. He also emphasized that the first rate increase was not linked to the scaling back of bond purchases. As a reminder, the Fed is currently buying \$120 billion in monthly purchases (\$80 billion in Treasuries and \$40 billion of agency MBS), and tapering means that the bank's balance sheet will continue to expand, but at a slower pace than currently.

A TORRID TIME FOR CHINESE INTERNET STOCKS



Chinese internet companies have had a rocky ride since they reached a peak in February. A wide-ranging number of announcements have been made by the Chinese government over the recent period, with "Common Prosperity" being highlighted as its core policy objective. Key sectors including internet, education and real estate were hit particularly hard. Even if some individual companies had already come under pressure a year ago, investors have been spooked by the speed and the scope of China's government's latest offensive.



INVESTMENT STRATEGY

The summer has turned out to be very profitable for the portfolios as equity markets have continued to grind higher, in part thanks to outstanding 2Q earnings and abundant liquidity. The Federal Reserve has opened the door to maybe begin to taper its monthly purchases before the end of the year, but markets seem relaxed about this perspective. We have maintained our overweight equity exposure, but some trimming has taken place. We also increased our allocation to alternative investments to the detriment of fixed income. We think that it makes sense to diversify the portfolios further by adding a market neutral strategy and by reducing some of the inherent asymmetrical risk of high yield bonds.

The equities of frontier markets have been one of the best contributors year-to-date. The fund we selected is outperforming its benchmark by a wide margin. The upside for the fund's portfolio remains very attractive as it is trading at only 9.7x 2022 earnings. The fund's manager is forecasting 24% earnings growth for 2022 versus consensus forecasts of 7.5% for both emerging markets and for the MSCI World Index.

THE EQUITIES OF FRONTIER MARKETS ARE ONE OF OUR FAVOURITE POSITIONS

PORTFOLIO ACTIVITY/NEWS

August was another positive month for the portfolios, mainly thanks to the strong performance of the equity asset class. European small caps, Japanese and UK equities as well as the multi-thematic and technology sector funds provided the best contributions; our European positive impact fund also made a good contribution. Within the fixed-income asset class, contributions were modest with the exception of the EM corporate debt fund which continued to perform well. The worst detractors were the mining sector fund and the Greater China fund which was impacted by the crackdown on several Chinese sectors.

In the summer, we added another alternative solution to our list of approved funds. This Event Driven fund focuses on mergers and acquisitions and mainly invests in announced deals, including non-US and smaller cap ones. The fund's track-record has been strong and consistent, with limited drawdowns; the fund dropped by less than 5% during the March 2020 market correction. The fund was added to the model portfolio to reduce market beta as the strategy has a very low correlation to other asset classes. We also boosted the allocation to the Global Macro fund after cutting one of our European high yield positions.

	End 2020	July 2021	August 2021	MTD	2021
Equities					
S&P 500	3'756.1	4'395.3	4'522.7	+2.9%	+ 20.4%
Euro Stoxx 50	3'552.6	4'089.3	4'196.4	+ 2.6%	+ 18.1%
MSCI EM	1'291.3	1'277.8	1'308.7	+ 2.4%	+ 1.3%
Yields					
UST 10-year	0.92%	1.22%	1.31%	+ 9bps	+ 39bps
Bund 10-year	- 0.57%	- 0.46%	- 0.39%	+ 7bps	+ 18bps
BBB EU	0.44%	0.47%	0.58%	+ 11bps	+ 14bps
Currencies					
EUR/USD	1.222	1.187	1.181	- 0.5%	- 3.4%
USD/CHF	0.885	0.906	0.915	+ 1.0%	+ 3.4%
EUR/CHF	1.081	1.075	1.081	+ 0.6%	+ 0.0%
GBP/USD	1.367	1.390	1.376	- 1.1%	+ 0.7%
Commodities					
CRB Index	167.8	218.1	218.2	+ 0.0%	+ 30.0%
Oil (WTI)	USD 48.5	USD 74.0	USD 68.5	- 7.4%	+ 41.2%
Gold	USD 1'898	USD 1'814	USD 1'814	+ 0.0%	- 4.4%

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