FFG
FORUM FINANCE
1994

MONTHLY NEWSLETTER

November 2021

KEY ECONOMIC DATA PUBLISHED IN OCTOBER

- China's Caixin PMI Manufacturing rose to 50.6 in October, above market expectations of 50.
- China's September exports jumped by 28.1% (YoY) above forecasts of 21.6%; imports rose by 17.6%, below expectations of + 18.5%.
- Economic sentiment in the Eurozone fell in October (ZEW survey at + 21 vs. + 31.1 in September). The PMI Composite number declined from 56.2 to 54.3 (forecast of 55.2).
- In Germany, economic sentiment (ZEW survey) dropped in October (+ 22.3 vs. + 26.5 in September). The IFO Business Climate Index fell to 97.7, in-line with forecasts.
- US consumer confidence climbed to 113.8 in October, above forecasts.
- The Markit US Manufacturing PMI Index dropped in October to 58.4 vs. 59.2 expected. The Services PMI was higher than expected, at 58.2.
- US payrolls in the private sector rose by 317K in September compared to forecasts of + 450K, with August numbers being revised upwards from + 243K to + 332K.

A SOLID Q3 EARNINGS SEASON UNDERPINS THE EQUITY MARKETS

+ 5.4%

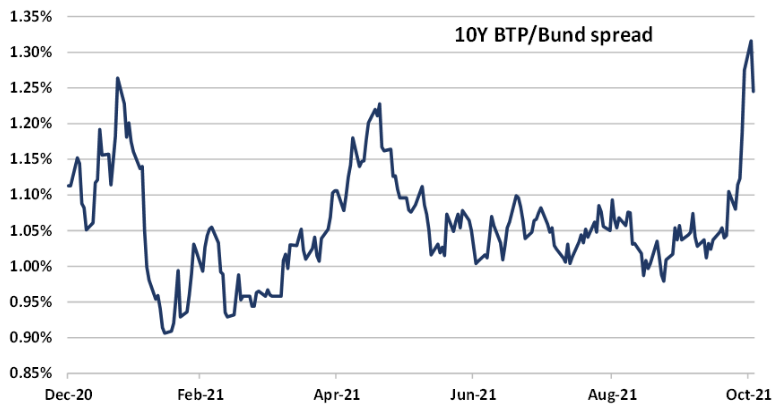
A STRONG MONTH FOR THE MSCI WORLD IN OCTOBER

INVESTMENT PERSPECTIVE

Global equity markets performed strongly in October under the leadership of US equities. The MSCI World Index in local currencies rose by 5.4%, with the S&P 500 climbing by 6.9%, but emerging markets and Japanese equities did not take part in the rally. The Brazilian equity market was particularly weak, on concerns over excessive public spending plans, whereas Japanese equities were also under pressure ahead of October 31 general elections. It was a quite volatile month for bond markets, with early-month rises of sovereign debt yields followed by a partial unwinding, at least on the longer end of the curves; this was due in part to big swings in inflation expectations. The yields of 10-year US Treasuries rose by 6bps in October but 2-year ones ended the month 20bps higher, resulting in a much flatter curve. There was also a lot of action within the commodity markets, as energy prices extended their rally and divergent trends were observed on industrial metals.

With 82% of the S&P 500's market cap having reported, 79% of the companies have beaten earnings' estimates and 72% revenue estimates. Overall, third-quarter earnings are beating expectations by 10.5% and revenues by 2.9%. The results of European companies have also surprised positively, even if to a lesser degree. However, both regions are producing similar earnings per share (EPS) growth of above 35% year on year. These solid corporate results have contributed to reassure investors which had lowered their expectations ahead of this reporting season. As a result, equity markets have rebounded strongly and appear to be on a firmer footing again. The fact that profits have proved to be resilient despite rising costs, and that fewer companies than feared have warned on future profits, has definitely boosted the equity asset class.

RISING TENSIONS IN THE EUROZONE BOND MARKETS



Source: Bloomberg L.P.

While equity markets have been powering ahead, sovereign debt markets have proven to be more volatile. Bond markets have increasingly been pricing in interest rate hikes by the Federal Reserve from mid-2022 onwards and even a hike by the ECB towards the end of next year. This has triggered a flattening of yield curves as the short end has been moving higher whereas the longer end has been dropping. The chart above shows that there has also been some dislocation in the Eurozone bond markets. The spread between 10-year Italian sovereign debt and 10-year Bunds has widened significantly on concerns about future ECB support.

FFG

FORUM FINANCE

1994

MONTHLY NEWSLETTER
November 2021

INVESTMENT STRATEGY

As many investors, we have been comforted by the ongoing reporting of Q3 corporate results. The portfolios' overweight equity allocation is benefiting from the current strength of equity markets. Even if bond markets appear to increasingly disagree with the timeline of interest rate hikes by the ECB and the Federal Reserve, this has not triggered any negative reaction by equity markets so far. The Fed's announcement following its FOMC November 2-3 meeting that it would start reducing its purchases this month was well flagged and taken in its stride by markets. Concerns over persistent high levels of inflation have not disappeared but, as long as they do not become the main drivers of markets, equities should remain the asset class of choice.

It has been interesting to observe that the price of gold has appreciated in October despite the pressure on bond yields. This likely reflects the fact that gold is considered as a good hedge against inflation in view of rising expectations. We also anticipate other positions in the portfolios such as the mining equities and the fund investing into real assets to represent good hedges against higher inflation.

PORTFOLIO ACTIVITY/NEWS

October was a very positive month for the portfolios, mainly thanks to the strong performance of many equity funds. The multi-thematic fund, European small caps, frontier markets, and mining equities provided the best contributions; the European value fund also continued to perform well and we much like the way the fund is positioned. As in September, most fixed-income funds ended the month little changed. Our emerging market corporate bond fund had a negative month, however, in part due to a difficult market for Chinese corporate bonds. Other negative contributions were far and few between, but included our UK equity fund and another one investing into Japanese equities. In the alternative space, the CTA fund performed well, whereas the other strategies were mostly stable.

One of the challenges ahead of us will be the replacement of some of the portfolios' long-only equity exposures by less directional strategies, especially as the fixed-income asset class is still very unattractive. Our search for new funds is therefore currently more focused on liquid hedge funds, with long/short credit and convertible arbitrage being some of our main interests at the moment.

RECENT VOLATILITY WITHIN BOND MARKETS HAS NOT IMPACTED EQUITIES SO FAR

	End 2020	September 2021	October 2021	MTD	2021
Equities					
S&P 500	3’756.1	4’307.5	4’605.4	+ 6.9%	+ 22.6%
Euro Stoxx 50	3’552.6	4'048.1	4'250.6	+ 5.0%	+ 19.6%
MSCI EM	1’291.3	1’253.1	1’264.8	+ 0.9%	- 2.1%
Yields					
UST 10-year	0.92%	1.49%	1.55%	+ 6bps	+ 63bps
Bund 10-year	- 0.57%	- 0.20%	- 0.11%	+ 9bps	+ 46bps
BBB EU	0.44%	0.77%	0.94%	+ 17bps	+ 50bps
Currencies					
EUR/USD	1.222	1.158	1.156	- 0.2%	- 5.4%
USD/CHF	0.885	0.932	0.916	+ 1.7%	+ 3.5%
EUR/CHF	1.081	1.079	1.058	- 1.9%	- 2.1%
GBP/USD	1.367	1.347	1.368	+ 1.5%	+ 0.1%
Commodities					
CRB Index	167.8	228.9	237.7	+ 3.8%	+ 41.7%
Oil (WTI)	USD 48.5	USD 75.0	USD 83.6	+ 11.4%	+ 72.4%
Gold	USD 1’898	USD 1’757	USD 1’783	+ 1.5%	- 6.1%