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FORUM FINANCE

1994

MONTHLY NEWSLETTER

February 2022

KEY ECONOMIC DATA PUBLISHED IN JANUARY

- China's Caixin PMI Manufacturing dropped to 49.1 in January, below market expectations of 50.2.
- China's December exports jumped by 20.9% (YoY) above forecasts of 20.1%; imports rose by 19.5%, below expectations of + 27.8%.
- Economic sentiment in the Euro-zone rose in January (ZEW survey at + 49.4 vs. + 26.8 in December). The PMI Composite number dropped from 53.3 to 52.4 (forecast of 52.6).
- In Germany, economic sentiment (ZEW survey) jumped in January (+ 51.7 vs. + 29.9 in December). The IFO Business Climate Index rose to 95.7, above forecasts of 94.7.
- US consumer confidence declined to 113.8 in January, above forecasts.
- The Markit US Manufacturing PMI Index dropped to 55.5 in January vs. 56.7 expected. The Services PMI was also lower than expected, at 50.9.
- US payrolls in the private sector rose by 211K in December compared to forecasts of + 390K, with November numbers being revised upwards from + 235K to + 270K.

A HAWKISH FED SENDS GROWTH STOCKS TUMBLING

- 9%

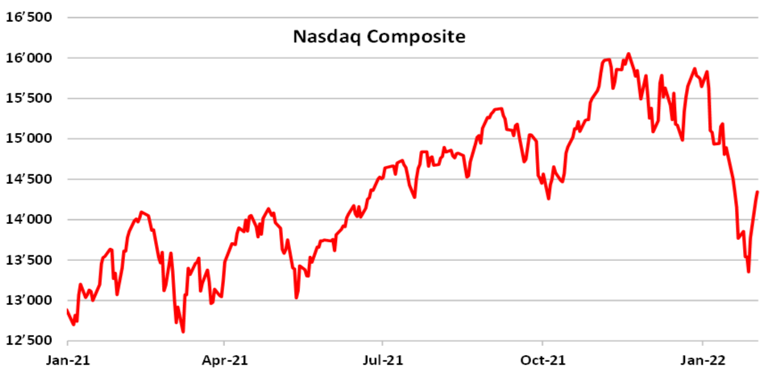
THE JANUARY DROP OF THE NASDAQ COMPOSITE INDEX

INVESTMENT PERSPECTIVE

Financial markets have got off to a very volatile start in 2022 largely due to the increasingly hawkish tone of the Federal Reserve, but also in view of a lack of visibility on several key issues. The US equity markets underperformed as growth stocks were badly hit by the prospect of rising interest rates. European and UK equities proved more resilient as they benefited from a rotation into value stocks, more highly represented in their indices. Significant rises of bond yields were also observed with short-term US ones the most impacted by the anticipation of a higher number of interest rate rate hikes; 2-year Treasury yields thus rose from 0.73% to 1.16%. Even if Eurozone yields also increased, the widening of the interest rate differential between Treasuries and Bunds underpinned the US dollar. Finally, the commodity complex appreciated strongly, with the biggest moves recorded by energy and industrial metals.

The most likely path of the Federal Reserve’s monetary policy has been reassessed continuously by investors since the beginning of the year. The hawkish pivot of the central bank in December moved to a new level, making markets very choppy on concerns that the Fed mighty tighten policy even more than expected. The mention in January of an upcomig reduction of the Fed’s balance sheet took investors by surprise, and a first rate hike in March now appears as a done deal. The following steps are less predictable even though markets are now pricing in five hikes in 2022 compared to three at the beginning of the year. Notwithstanding the prospect of higher interest rates, investors remain confused by the level of uncertainty that the central bank, and Powell in particular, is predicting. Added to the uncertainy over inflation, supply chains, the pandemic and the situation on the Ukrainian border, it is not surprising that markets were badly shaken during the past month.

EARLY-YEAR PRESSURE ON GROWTH SECTORS



Source: Bloomberg L.P.

The chart illustrates the torrid start to 2022 for the Nasdaq Composite index, and for growth stocks overall. The index plunged by 13.5% from its end-2021 level before rebounding by 5.2% to end the month 9% lower. The impact of fast-rising bond yields on highly valued long duration assets was severe, and compounded trends which had already been prevalent for some time. Small caps, unprofitable technology companies, and pandemic-era favourites also declined sharply, as did cryptocurrencies. The end-of-month rebound can be explained by oversold conditions, extreme pessimism of market sentiment and strong earnings from some of the market’s mega-caps.

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INVESTMENT STRATEGY

Following a solid end to 2021 for financial markets, January has provided a stark reminder of how quickly conditions can change. The speed at which the Federal Reserve is looking to normalize its monetary policy is destabilizing the markets and it will likely take some time for an equilibrium to be found. Our base case scenario still favours equities as being the main drivers of portfolio performance, and we are prepared to tolerate higher volatility in the near term in view of our longer-term outlook. Economic growth should remain above its long-term potential and corporate earnings are expected to grow further, even if at a slower pace. From a historical perspective, the beginning of a tightening cycle by the Fed has not prevented positive equity returns as long as the rise of rates is gradual, and a recession is not in sight.

Markets are likely to be much more challenged in the year ahead. Less supportive monetary policies, a decelerating trend of earnings growth, elevated economic and pandemic-related uncertainties are the main headwinds they will have to face. These factors largely explain why we anticipate more moderate portfolio returns in 2022.

MARKETS TO REMAIN VOLATILE AS ELEVATED UNCERTAINTY UNLIKELY TO DISSIPATE SOON

PORTFOLIO ACTIVITY/NEWS

January was a disappointing month for the portfolios. With both bond and equity markets dropping simultaneously, the majority of funds detracted from the performance, as to be expected. US Small Caps, the Multi-thematic fund, European Small Caps, the global technology fund and one of the Japanese funds were the main detractors. On the positive side, some positive contributions were provided by the European Value fund, long/short equities and the UK Value fund. For non-USD denominated portfolios, the appreciation of the dollar was also a positive contributor. In the alternative space, the long/short credit funds and the Event-Driven strategy had limited drawdowns, whereas the CTA and Global Macro strategies fared less well.

The selection of active managers is at the core of our investment approach, with the objective of generating significant alpha relative to benchmarks over the long term. There will be periods when we must accept some underperformance relative to a more passive approach. We are currently going through such a period and will be looking for our active funds to catch up their gap and re-establish their long-lasting track-record.

	End 2020	December 2021	January 2022	MTD	2022
Equities					
S&P 500	3’756.1	4’766.2	4’515.6	- 5.3%	- 5.3%
Euro Stoxx 50	3’552.6	4'298.4	4'174.6	- 2.9%	- 2.9%
MSCI EM	1’291.3	1’232.0	1’208.2	- 1.9%	- 1.9%
Yields					
UST 10-year	0.92%	1.51%	1.78%	+ 27bps	+ 27bps
Bund 10-year	- 0.57%	- 0.18%	0.01%	+ 19bps	+ 19bps
BBB EU	0.44%	0.95%	1.25%	+ 30bps	+ 30bps
Currencies					
EUR/USD	1.222	1.137	1.124	- 1.2%	- 1.2%
USD/CHF	0.885	0.913	0.927	+ 1.5%	+ 1.5%
EUR/CHF	1.081	1.038	1.041	+ 0.4%	+ 0.4%
GBP/USD	1.367	1.353	1.345	- 0.6%	- 0.6%
Commodities					
CRB Index	167.8	232.4	255.1	+ 9.8%	+ 9.8%
Oil (WTI)	USD 48.5	USD 75.2	USD 88.2	+ 17.3%	+ 17.3%
Gold	USD 1’898	USD 1’829	USD 1’797	- 1.7%	- 1.7%