FFG
FORUM FINANCE
1994

MONTHLY NEWSLETTER

May 2023

KEY ECONOMIC DATA PUBLISHED IN APRIL

- China's Caixin PMI Manufacturing Index dropped to 49.5 in April, below market expectations of 50.
- China's March exports rose by 14.8% (YoY), above forecasts of - 7.1%; imports fell by 1.4%, less than the 6.4% drop expected.
- Economic sentiment in the Euro-zone dropped in April (ZEW survey at + 6.4 vs. + 10 in March). The PMI Composite number rose from 53.7 to 54.1 (forecast of 54.4).
- In Germany, economic sentiment (ZEW survey) fell in April (+ 4.1 vs. + 13 in March). The IFO Business Climate Index rose to 93.6, a little below forecasts of 94.
- US consumer confidence fell to 101.3 in April, below forecasts.
- The Markit US Manufacturing PMI Index rose to 50.2 in April vs. 49 expected. The Services PMI was also higher than expected, at 53.6.
- US payrolls in the private sector rose by 189K in March compared to forecasts of + 215K, with February numbers being revised higher from + 265K to + 266K.

Source: Bloomberg Finance L.P.

APRIL WAS A MUCH LESS VOLATILE MONTH FOR CAPITAL MARKETS

- 5.9%

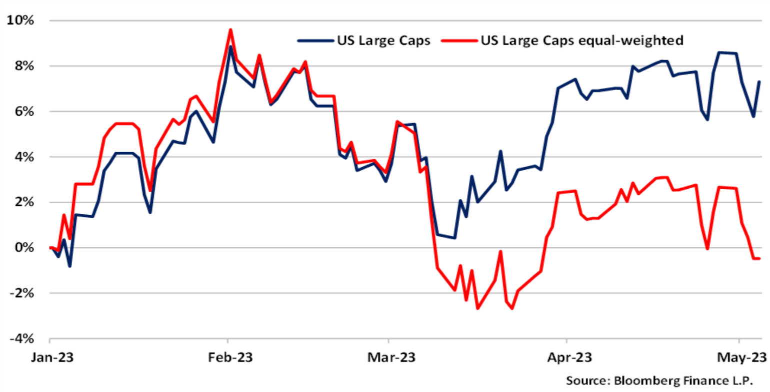
THE GAP AT THE END OF APRIL OF A US LARGE CAP EQUAL-WEIGHTED INDEX TO A MARKET CAP ONE

INVESTMENT PERSPECTIVE

The month of April proved to be much less volatile than the previous one. The major equity indices of developed markets recorded limited gains, whereas emerging market equities ended with small losses. Despite the prospect of additional rate hikes, persistent inflation and signs of slowing economic growth, equities proved to be quite resilient. This was due in large part to acceptable corporate earnings which beat expectations that had been consistently lowered by analysts over the past months. Bond markets also ended with modest changes even if volatility remained well above-average, in contrast to the fast declining volatility observed in equity markets. The yields of 2-year and 10-year Treasuries edged lower by 2bps and 5bps, respectively, to end-April levels of 4.01% and 3.42%, with Bunds behaving in a very similar manner. With markets still anticipating a number of rate cuts by the Federal Reserve in the second half of 2023, following a final 25bps hike in May, the US dollar continued to depreciate against other major currencies; the EUR/USD parity appreciated by 1.7% to end the month at 1.102.

With more than 85% of the S&P 500's market cap having reported, earnings have beaten estimates by 6.6%, with 77% of companies topping projections. Earnings per share growth is on pace for - 1.3%, assuming the current beat rate for the rest of the season. Sales have beaten estimates by 2.8%, with 67% of companies doing better than expected. In Europe, the earnings season is somewhat less advanced but, out of the companies having already reported their results for the first quarter, 64% have beaten earnings' estimates and 65% sales' expectations. Overall, these results have been supportive for equity markets, especially as most of the US mega-caps beat expectations. The results of companies such as Microsoft, Apple, Alphabet, Meta Platforms, Exxon Mobil and JPMorgan Chase were cheered by markets and contributed to the outperformance of their stock prices in April.

THE RALLY OF US EQUITIES HAS BECOME CONCENTRATED



The rally of US equities had been broad-based until turmoil in the US banking sector hurt markets in early March. Since then, the equal-weighted index for US large caps has significantly underperformed a market-cap weighted one as investors have sought refuge in a limited number of mega caps. As at the end of April, the equal-weighted index was lagging by some 5.9%. At the time of writing, this gap has even widened to 7.8% as the equal-weighted index gave up the remainder of its early-year gains during the first week of May!

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INVESTMENT STRATEGY

We maintained our defensive portfolio asset allocation in April. We remain sceptical about the potential for much higher equity markets in the near term, due to an expected slowdown of the economy, tighter bank lending standards, and markets' overoptimistic anticipation for Fed rate cuts in 2023. We continue to observe sticky inflation data and the main central banks will not want to take the risk of making a policy mistake by cutting interest rates too early. If they were to cut rates, in contrast to their current outlooks, it would be because of pronounced weakness of the economy which is not being discounted by equity markets at present. We also believe that long-term bond yields could increase from the current levels. In that case, it would allow us to increase our fixed income allocation as well as the portfolios' duration.

PORTFOLIO ACTIVITY/NEWS

April was a flattish month for the portfolios as monthly changes for the different positions tended to be limited and ended up by neutralising one another overall. The medtech and services fund provided the best contribution, with European value equities, the real assets fund, defensive equities, and the trend-following CTA strategy also producing some positive contributions. The main monthly detractors were the global technology fund, global convertible bonds, Chinese equities, the multi-thematic fund, as well as the emerging market corporate debt fund. With the exception of global convertible bonds, all the other fixed income positions generated small positive contributions. Alternative strategies also added to the performance of the portfolios even if gains were modest. For non-USD denominated portfolios, the depreciation of the dollar meant that it was a detractor.

THE MARKETS' EXPECTATIONS FOR 2ND HALF RATE CUTS DO NOT MATCH THE FED'S POLICY PATH OUTLOOK

	End 2022	March 2023	April 2023	MTD	2023
Yields					
UST 2-year	4.43%	4.03%	4.01%	- 2bps	- 42bps
Bund 2-year	2.74%	2.67%	2.68%	+ 1bps	- 6bps
UST 10-year	3.87%	3.47%	3.42%	- 5bps	- 45bps
Bund 10-year	2.57%	2.29%	2.31%	+ 2bps	- 26bps
Currencies					
EUR/USD	1.071	1.084	1.102	+ 1.7%	+ 2.9%
USD/CHF	0.925	0.915	0.895	- 2.2%	- 3.2%
EUR/CHF	0.990	0.992	0.985	- 0.7%	- 0.5%
GBP/USD	1.208	1.234	1.257	+ 1.9%	+ 4.1%
Commodities					
Oil (WTI)	USD 80.3	USD 75.7	USD 76.8	+ 1.5%	- 4.4%
Copper	USD 381.1	USD 409.5	USD 387.0	- 5.5%	+ 1.5%
Gold	USD 1'824	USD 1'969	USD 1'990	+ 1.1%	+ 9.1%

Source: Bloomberg Finance L.P.