FFG
FORUM FINANCE
1994

MONTHLY NEWSLETTER

June 2023

KEY ECONOMIC DATA PUBLISHED IN MAY

- China's Caixin PMI Manufacturing Index rose to 50.9 in May, above market expectations of 49.5.
- China's April exports rose by 8.5% (YoY), above forecasts of + 8.0%; imports fell by 7.9%, well below market expectations.
- Economic sentiment in the Euro-zone dropped in May (ZEW survey at - 9.4 vs. + 6.4 in April). The PMI Composite number fell from 54.1 to 52.8 (forecast of 53.5).
- In Germany, economic sentiment (ZEW survey) fell in May (- 10.7 vs. + 4.1 in April). The IFO Business Climate Index dropped to 91.7, below forecasts of 93.
- US consumer confidence dipped to 102.3 in May, above forecasts.
- The Markit US Manufacturing PMI Index fell to 48.4 in May vs. 50 expected. The Services PMI was higher than expected, at 54.9.
- US payrolls in the private sector rose by 283K in May compared to forecasts of + 168K, with April numbers being revised higher from + 230K to + 253K.

Source: Bloomberg Finance L.P.

THE US DOLLAR RECOVERED ALL OF ITS YTD LOSSES AGAINST THE EURO IN MAY

+ 36.3%

THE PERFORMANCE OF NVIDIA IN MAY

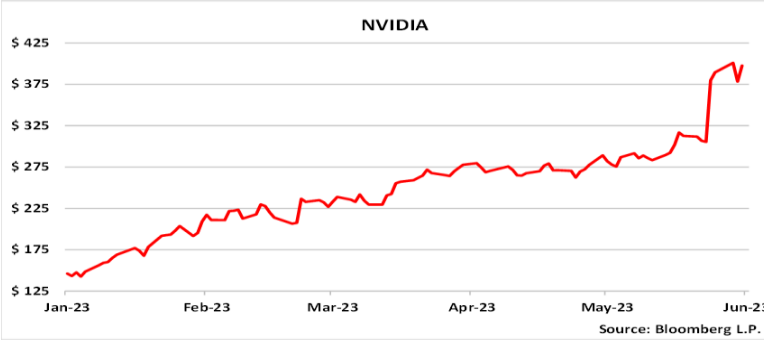
INVESTMENT PERSPECTIVE

In May most equity markets were rangebound as investors' attention was gripped by the debt ceiling talks in Washington to avoid a default by the US government. Japanese equities continued to perform well, however, as did US growth stocks, in particular those of companies heavily involved in Artificial Intelligence. European and emerging market equities struggled and ended the month with small losses. While European bond yields were mostly stable, the Treasury yield curve shifted much higher as investors reduced some of their exposure to US debt in view of the risk of a first-ever US default; 2-year and 10-year Treasury yields rose by 40bps and 22bps, from 4.01% and 3.43% to 4.41% and 3.65% respectively. In this context, the US dollar performed well as it recouped its year-to-date losses against the euro, with a 3% return in May. Weakness was observed in commodity prices on concerns over softer global demand; the prices of industrial metals, such as copper and iron ore, fared poorly, as did oil prices, with a barrel of WTI oil dropping by more than 11%.

Market expectations relative to the path of the Federal Reserve's monetary policy have shifted quite significantly during the last weeks. While there is a broad consensus that the prospect of further interest rate hikes appears to be very limited from now on, markets repriced their expectations in May for the end-2023 level of Fed funds. From a point where three rate cuts by the end of the year were anticipated, markets are now pricing in one rate cut only. This is more closely aligned with the Federal Reserve's outlook as it has consistently pushed back against the idea of rate cuts this year already.

As often observed in the past, Democrats and Republicans finally reached an eleventh hour deal to avert the first-ever default on US government debt. The legislation that suspends the $31.4 trillion debt ceiling will remain in effect until 2025, when one is likely to face a similar situation once again.

THE ACCELERATION OF THE RALLY OF NVIDIA IN MAY



The dispersion observed within US equity markets since March widened in May as an equal-weighted index for US large caps declined by 4% whereas a large caps' growth one appreciated by 7.6%! This significant outperformance of growth stocks was driven by the hype surrounding the Artificial Intelligence (AI) theme, under the leadership of Nvidia. The world's most valuable semi-conductor company revealed forecasts of rapid sales growth which added fuel to its ongoing rally, resulting in a 36.3% monthly gain. A broad semiconductor index rose by 15.3% and mega caps such as Microsoft, Apple and Meta also rose, by 6.9%, 4.5% and 10.2% respectively during the month.

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INVESTMENT STRATEGY

At the onset of summer, we are sticking to our defensive portfolio asset allocation. We remain cautious in view of a slowdown of economic activity, higher for longer interest rates, tighter bank lending standards, and the risk of rising bond yields. Following the US debt ceiling deal, a deluge of Treasury bill issuance is coming; this could drain liquidity from the markets and push bond yields higher which could in turn also impact stock prices negatively. The narrow rally of the US stock markets is also of concern based on past observations. That is why we are also maintaining our diversified allocation. We are seeing some early signs that a rotation might be taking place in the markets. Strategies which have underperformed up to now appear to finally be attracting some attention from investors. It is too early to tell whether these are sustainable trends, but we see good fundamental reasons to remain invested in this way.

YIELD CURVES COULD BE UNDER PRESSURE AS US DEBT ISSUANCE MIGHT DRAIN MARKET LIQUIDITY

PORTFOLIO ACTIVITY/NEWS

May was another flattish month for the portfolios as positive and negative monthly returns for the various underlying positions cancelled each other out. The best contributions were provided by the global technology fund, the multi-thematic fund, global convertible bonds, the systematic global macro strategy, and by frontier markets' equities. For non-USD denominated portfolios, the strong appreciation of the dollar also contributed to the performance. Alternative strategies overall also added to the performance of the portfolios The main detractors over the past month were European value and Chinese equities, emerging market corporate debt as well as the specialty metals fund.

As often highlighted, the performances of some indices this year are quite deceiving as they have been driven by a small number of stocks and sectors. The dispersion of performance between the value and growth styles, between small and large caps, between the different sectors, as well as between different regions is striking. As an illustration the spread of performances between our best and worst performing equity funds was over 40% as at the end of May!

	End 2022	April 2023	May 2023	MTD	2023
Yields					
UST 2-year	4.43%	4.01%	4.41%	+ 40bps	- 2bps
Bund 2-year	2.74%	2.68%	2.71%	+ 3bps	- 3bps
UST 10-year	3.87%	3.43%	3.65%	+ 22bps	- 22bps
Bund 10-year	2.57%	2.31%	2.28%	- 3bps	- 29bps
Currencies					
EUR/USD	1.071	1.102	1.069	- 3.0%	- 0.2%
USD/CHF	0.925	0.895	0.911	+ 1.8%	- 1.5%
EUR/CHF	0.990	0.985	0.973	- 1.2%	- 1.7%
GBP/USD	1.208	1.257	1.244	- 1.0%	+ 3.0%
Commodities					
Oil (WTI)	USD 80.3	USD 76.8	USD 68.1	- 11.3%	- 15.2%
Copper	USD 381.1	USD 387.0	USD 363.7	- 6.0%	- 4.6%
Gold	USD 1'824	USD 1'990	USD 1'963	- 1.4%	+ 7.6%

Source: Bloomberg Finance L.P.

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