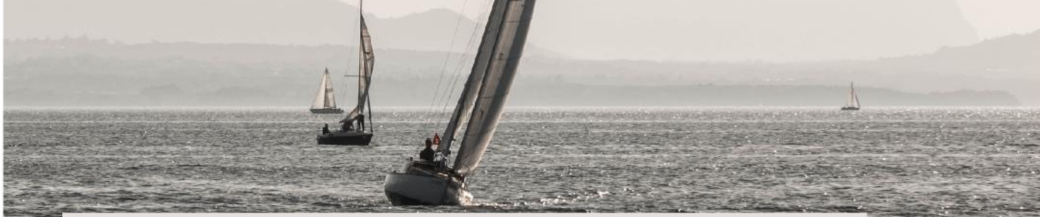


FFG
FORUM FINANCE
1994

MONTHLY NEWSLETTER

December 2023

KEY ECONOMIC DATA

- Japanese 3Q GDP fell a provisional 0.5% q/q vs -0.1% expected (annualised -2.1% vs -0.4% expected)
- UK's budget deficit was 5.46% in 3Q compared with 3.75% in the same quarter last year, and the worst since 4Q 2020.
- U.S demand for new credit fell over the last year and will likely stay soft in the future, a survey by the New York fed showed.
- U.S. October existing home sales fell 4.1% m/m to an annualised 3.79m units, which other than a 3.45m and 3.68m print in July and August 2010 was the lowest since Bloomberg records began in 1999.
- U.S. 3Q real GDP was revised up to a SAAR of 5.2% q/q.
- German EU Harmonised CPI slowed to 2.3% y/y from 3.0% and was below expectations of 2.5%. It was down 0.7 m/m with the 3-month annualised rate -2.8%.
- Eurozone November CPI rose a provisional 2.4% y/y, a slowdown from 2.9% in October and below expectations of 2.7%.

S&P 500 and Nasdaq both posted their biggest monthly gains since July 2022

10.7%

THE PERFORMANCE OF NASDAQ COMPOSITE

INVESTMENT PERSPECTIVE

November saw broad-based gains in bond and equity markets on the back of slowing inflation and easing interest rate pressures. As expected, the FOMC left interest rates unchanged, although Chairman Powell indicated that the Fed would raise interest rates if warranted by the data and economic conditions. The latest release showed that the US economic activity had slowed, with mixed consumer activity due to higher price sensitivity.

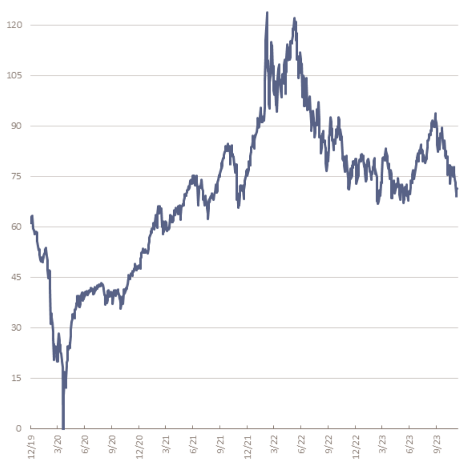
Fixed income markets, particularly those with high interest rate sensitivity, reversed course after three months of declines and posted broad-based gains. The US 10Y ended the month at 4.34% (it reached 5.02% in October), down 80 bp from its peak but still higher than in January, while the German 10Y ended the month at 2.45%, 10 bps lower than at the end of 2022. The recent release of lower-than-expected preliminary eurozone CPI for November, which rose 2.4% y/y, slowing from 2.9% in October, acted as a catalyst.

Strong gains in the government bond sector, e.g., US Long Treasury up 9.16%, were accompanied by a tightening of credit spreads, which helped all credit segments. For example, the US dollar hedged Global Aggregate Index gained 5.7%, the Global Aggregate Corporate and Global High Yield gained 4.7% and 5.4% respectively, while the EMD High Yield gained 6.1%.

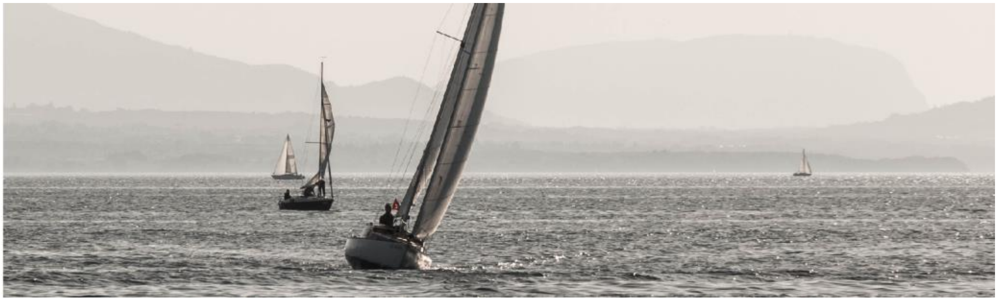
Consumers ended the month better than expected, with Black Friday online shopping estimated at a record $9.8 billion, Cyber Monday sales estimated at a record $12 billion and total Thanksgiving sales estimated at $38 billion. In this context, the All-Country World Equity Index rose 8.1% in local currency terms, 9.2% in US dollar terms and only 5.8% in euro terms. Breadth improved significantly in November. In the US, the large cap index was up 9.1%, while the tech-heavy Nasdaq 100 was up 10.7%. Europe, Japan, and emerging markets gained 6.4%, 6.0% and 8.0% respectively. Within Europe, it is worth noting that the small cap index strongly rebounded, rising almost 9% in euro terms.

The US Dollar Index (DYX) was under heavy pressure and closed 3% lower, the Emerging Market Currency Index gained 2.8% and the Chinese Renminbi gained 2.5%. West Texas Crude Oil ended the month down 6.2% while Gold gained 2.7% over the month. The equity volatility index (VIX) fell to 12.9%, its lowest monthly close level in 2023.

Crude Oil WTI (NYM $/bbl)



FFG
FORUM FINANCE
1994



MONTHLY NEWSLETTER
December 2023

INVESTMENT STRATEGY

October's CPI confirmed the disinflationary momentum, with the annualized core CPI at its lowest level since September '21, while the core PCE fell to its lowest level since March '21.

The release of better inflation data came as a relief, allowing the US 2-year Treasury yield to fall 35bp to around 4.7% and the US 10-year yield to fall 55bp to around 4.35%. The rise in interest rate contributed to a significant easing in financial conditions amid growing optimism about the end of the tightening cycle.

Since the November FOMC meeting, we have seen a significant shift in Fed funds rate expectations. Indeed, market participants are now pricing in a near-zero chance of a rate hike in December. Despite Fed officials reiterating their "higher-for-longer" message, the market's median expectation for the fed funds rate at the end of 2024 fell from a high of 4.83% to 4.19% at the end of November.

The potential pivot in central bank policy, positioning and improved sentiment were the main drivers behind the market rally. EPFR flows data showed a net inflow of $40bn into global equities in the two weeks to 21 November.

In the US, the 3Q earnings season ended with growth of around 4.8% as at 30 November. The focus now turns to 4Q23, which fell further this month to 2.9% from 8.0% at the end of September, putting the double-digit earnings growth rebound in 2024 under greater scrutiny.

Emerging Market Debt Corporate Yield-to-Worst stands at 7.5% at the end of November

PORTFOLIO ACTIVITY

US indices broke a three-month losing streak, while Treasuries posted one of the best monthly performances on record, with a rally across the curve and some flattening. As higlighted in October, the market rallied strongly on a positioning tailwind that could continue as trend strategies and shorts continue to unwind positions.

We started the month with an overweight position in equities, which we increased during the month with some rebalancing out of defensive strategies such as US long/short and global low volatility in favour of a global strategy that uses a very compelling combination of macro decisions with more traditional bottom-up stock picking as part of the process.

In fixed income, we carried on our gradual increase of our interest rate sensitivity and maintained our constructive stance on credit including our emerging market high-yield corporate debt position.

Similar to our equity allocation, we have reduced our positions in credit long/short strategies and those invested primarily in leveraged loans, which have very low interest rate sensitivity.

Our allocation to liquid alternative strategies has remained broadly unchanged, with a clear preference for risk-parity strategies over trend and global macro strategies, while recognizing that trend strategies may have been repositioned after the rally and could therefore benefit from further upside.

	31/12/2022	30/09/2023	30/11/2023	From Previous Month	From Year End
Yields (%)					
US 3-Month	4.34	5.45	5.39	-7bps	+104bps
German 3-Month	1.56	3.62	3.66	-4bps	+210bps
US 2-Year	4.43	5.04	4.68	-41bps	+25bps
German 2-Year	2.74	3.20	2.81	-20bps	+7bps
US 10-Year	3.87	4.57	4.33	-60bps	+45bps
German 10- Year	2.57	2.84	2.45	-36bps	-12bps
Currencies					
EUR/USD	1.0705	1.0573	1.0888	+3.0%	+1.7%
USD/CHF	0.9245	0.9153	0.8752	-3.9%	-5.3%
EUR/CHF	0.9896	0.9676	0.9529	-1.0%	-3.7%
GBP/USD	1.2083	1.2199	1.2624	+3.9%	+4.5%
Commodities					
Oil (WTI)	$80.3	$90.8	$76.0	-6.2%	-5.4%
Copper	$381.1	$373.8	$382.9	+4.9%	+0.5%
Gold	$1'824	$1'849	$2'036	+2.6%	+11.6%

Source: Bloomberg Finance L.P.