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FORUM FINANCE
1994

MONTHLY NEWSLETTER

January 2024

KEY ECONOMIC DATA

- Real gross domestic product (GDP) grew at an annual rate of 3.3% in the fourth quarter of 2023
- US retail sales rose 0.6% month-on-month in December, following a 0.3% rise in November and beating forecasts of 0.4%
- Euro area annual inflation is expected to be 2.8% in January 2024, down from 2.9% in December, according to a flash estimate by Eurostat
- Pending home sales rose 8.3% in December 2023, with monthly and year-on-year transaction gains in the Midwest, West, and South, and losses in the Northeast
- China's PMI rose to 49.2 in January from 49.0 in December, driven by an increase in output but still below the 50 mark that separates growth from contraction
- China's producer price index (PPI), which measures the cost of goods at the factory gate, fell 2.7% year-on-year in December. The decline slowed from a 3% drop in November. On a monthly basis, the PPI fell 0.3% in December

S&P 500 reached a record high in January (4'931.09) for the first time since January 2022

1.92%

THE PERFORMANCE OF THE DOLLAR INDEX

INVESTMENT PERSPECTIVE

In January, US economic data continued to support the outlook for continued economic strength while disinflation remained in evidence. In Europe, the European Central Bank (ECB) kept interest rates unchanged. On the economic front, the release of the composite Purchasing Managers' Index beat expectations, suggesting that manufacturing activity is bottoming out.

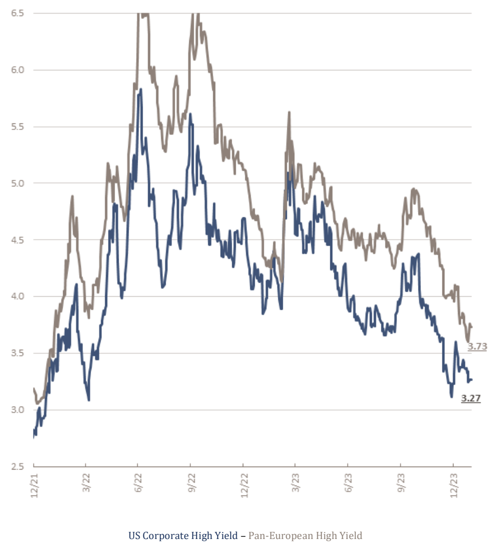
Against this backdrop, asset class performance was mixed over the month. Fixed income indices posted slightly negative returns, with the long-dated government bonds posting the largest decline as long-term yields rose, reversing the gains seen in December. US and European 10-year yields were mostly higher as the curve steepened. There was some relief in the US at the end of the month thanks to lower expectations for US Treasury borrowing.

As in 2023, high yield corporate bonds, especially European ones, were again the best performers with a return of 1.1% thanks to a significant narrowing of average spread levels (381 bps for pan-European high yield versus 399 bps at end-December).

Equities started the year on a weak note before rallying strongly to end the month higher, despite the Fed's hawkish tone at its January meeting and Chairman Powel's comments that he did not think a March cut was likely. In terms of returns, we observe the same hierarchy as last year, with Japanese equities (+8.5% in local currency) leading the pact, followed by US large caps (+2.5%), helped by some technology names, and finally Indian equities, while small caps (-3.9%), global emerging markets (-4.6% in USD) and China (-10.6%) were the laggards. It is worth noting that the S&P 500 reached its highest level ever during the month as the "Magnificent Seven" continued their fantastic run.

Commodities delivered positive returns with oil gaining ground, with WTI crude up 5.9%, as tensions in the Middle East escalated and disruptions to shipping routes continued. Gold lost just over 1% in US dollar terms after hitting a new all-time high in December, reflecting a stronger dollar (the dollar index rose 1.9% over the period after three consecutive months of decline).

High Yield Spreads (Option-Adjusted-Spread - %)



The Forum Finance Group SA
Rue du Rhône 65 – CH-1204 Geneva – T +41 22 552 83 00 – FFGG.COM

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INVESTMENT STRATEGY

So far this year, at least in the US, the 2023 laggards are back to lagging and the winners are back to winning as demonstrated by the performance of the US momentum index, which returned 5.6%.

Risk asset prices are significantly higher than three months ago, thanks to the Fed's shift from "higher for longer" to "we are done hiking to ease in 2024". However, the timing and pace of rate cuts remain uncertain, as does the path of quantitative tightening (QT).

Although the Fed has signalled its intention to cut three times this year, future markets are pricing in more cuts, assuming that the Fed will act faster and more than it has publicly signalled.

Long-term interest rates in developed markets have peaked and offer attractive yield levels. Although interest rate cover has started to deteriorate, corporate fundamentals are starting from a position of strength. As credit spreads have tightened, we should therefore expect that future total returns to be driven mainly by carry rather than spread tightening.

After the rally since the end of October, it is time to trim the sails by gradually reducing the directionality of our exposures and building up some liquidity reserves to take advantage of any opportunities that market volatility may present.

Pan-European high yield yields are still above 7.6% and spreads are actually tighter (381 bps) than a year ago

PORTFOLIO ACTIVITY

Our positioning since the end of October has allowed us to participate to a large extent in the rally in the last three months.

Aware that credit spreads are tight, we are nevertheless maintaining our credit exposure, particularly in high yield, while favouring greater selectivity and quality.

We maintain a generous equity weighting in our portfolios, but recognise that greater caution is undoubtedly warranted.

We are gradually reducing our equity market positions by a few percentage points and reintroducing long/short strategies into our US equity portfolio.

In both Europe and the US, we continue to favour a bias towards quality growth, without ignoring the potential benefits of value. We remain constructive on small caps, particularly in Europe and Switzerland.

Although our call on China has proved painful so far, we are maintaining it and taking the opportunity to bring this weighting back to the desired level after the downturn.

Finally, our allocation to liquid alternative strategies will reflect our less directional approach to markets by reducing our high beta investments in favour of less directional strategies. We will also introduce an alternative trend strategy to complete our alternative bucket, with the aim of adding further resilience to the overall portfolio.

	31/12/2022	31/12/2023	31/01/2024	Month-to-Date	Year-to-Date
Yields (%)					
US 3-Month	4.34	5.33	5.36	+2 bps	+2 bps
German 3-Month	1.56	3.55	3.69	+14 bps	+14 bps
US 2-Year	4.43	4.25	4.21	-4 bps	-4 bps
German 2-Year	2.74	2.39	2.42	+3 bps	+3 bps
US 10-Year	3.87	3.88	3.91	+3 bps	+3 bps
German 10- Year	2.57	2.02	2.17	+15 bps	+15 bps
Currencies					
EUR/USD	1.0705	1.1039	1.0818	+2.0%	+2.0%
USD/CHF	0.9245	0.8414	0.8614	+2.4%	+2.4%
EUR/CHF	0.9896	0.9289	0.9319	+0.3%	+0.3%
GBP/USD	1.2083	1.2731	1.2688	-0.3%	-0.3%
Commodities					
Oil (WTI)	$80.3	$71.7	$75.9	+0.4%	+0.4%
Copper	$381.1	$389.1	$390.6	+0.4%	+0.4%
Gold	$1’824	$2’063.0	$2’039.5	-1.1%	-1.1%

Source: Bloomberg Finance L.P.