

KEY ECONOMIC DATA

- The headline US PMI composite output index fell to 51.4 from 52.0 in January, signalling a modest expansion in business activity
- Japan's core inflation slowed for a third straight month in January, but beat forecasts and remained at the central bank's 2% target
- The consumer confidence index fell to 106.7 in February from a downwardly revised 110.9 in January
- Euro area annual inflation was 2.6% in February, down from 2.8% in January, according to a flash estimate from Eurostat
- China's consumer price index fell 0.8% year-on-year in January, more than the 0.5% drop expected by economists polled by Reuters. On a m/m basis, the CPI rose 0.3% slower than the 0.4% expected
- In December 2023, the seasonally adjusted industrial production rose by 2.6% in both the euro area and the EU, compared with November
- Swiss consumer prices rose by 1.2% year-on-year, the lowest reading since October 2021

The STOXX 600 reached a new all-time high of ~497.75 on 23 February

10.79%

THE PERFORMANCE OF
CHINESE -A- ONSHORE

INVESTMENT PERSPECTIVE

In the US, the latest economic data showed that gross domestic product rose at a revised annualised rate of 3.2% in the fourth quarter, compared with a previous estimate of 3.3%. Between the beginning of January and the end of February there were even signs of a slight upturn in US economic activity.

There have been mixed signals from the labour market and on the inflation front. The strength of the labour market and the renewed tensions on the inflation front clearly support the Federal Reserve's position. The main consequence of these robust figures is that they have removed any chance of a first cut before the June meeting.

In Europe, the ECB left interest rates unchanged. After a period of optimism, with expectations of more than 100bps cut as early as April, market expectations have adjusted to a 90-95bps cut from June, in line with the Fed.

In Japan, the government reported that the economy contracted at an annual rate of 0.4% between October and December, although it grew 1.9% for the year, but contracted 2.9% in July-September. The stronger core CPI pushed JGB yields higher and should be a warning sign that the \$20 trillion global carry trade financed by shorting the JPY is likely nearing an end. The flash manufacturing PMI fell to 47.2 in February from 48.0 in January, signalling a ninth consecutive deterioration in operating conditions, the most since August 2020.

US Treasuries were significantly weaker, with the 10-year US Treasury yield ending the month at 4.25%, while in Europe the 10-year Bund also ended the month higher at 2.41%, up from 2.02% at the end of December.

US stock indices ended the month higher, closing above 5,000 for the first time on 9 February. Major technology companies were higher overall, helped by the continued momentum of Nvidia (+28.7% over the month).

Europe was not left behind, with the main European index reaching a new all-time high. As in 2023, the UK index lagged due to its exposure to mining, oil, and real estate. It should be noted that corporate earnings were better than expected, which should continue to support price rises.

The dollar was again particularly strong against the yen and was flat against the euro. Gold closed down 0.6%, while oil was higher (up 3.2%).

Momentum Index





INVESTMENT STRATEGY

The broad consensus on the path of interest rates remains uncertain, but the market expects rates to move lower, with 100 bps of easing in the US this year starting in June.

After the strong rally in markets into year-end, valuations across asset classes look somewhat stretched, for example spreads on the fixed income side as well as equity indices.

Despite acknowledging stretched trailing PE multiples, many strategists have raised their annual target for the S&P 500.

Driven by a handful of names, large cap EPS forecasts are trending higher, while small and mid cap index earnings continue to trend lower.

Momentum and quality indices continue to outperform value year-to-date. This is true across and with asset classes especially the Nikkei, which has reached record levels and is one of the best performing equity indices in local currency terms so far this year.

In the US, several technical records are being tested by the ongoing exuberance, including 16 positive weeks out of the last 18 - the best streak since 1971 - and a market rally (+24%) without a 2% decline in 20 years. Indicators suggest that, based on historical patterns, a correction may be overdue.

For the first time since last summer, China's stock indices are trading above their 50-day moving average.

PORTFOLIO ACTIVITY

The correction in the rate cut expectations of the major central banks in the developed world is now more in line with the message they have been distilling for the past year.

This rebalancing should underpin the credibility of central banks in their determination not to act too hastily at the risk of seeing inflation rise again.

Against this backdrop, we believe it would be prudent to increase our bond weighting in order to increase the interest rate sensitivity of our portfolio. We have therefore initiated a position in long-dated government bonds to take advantage of the expected easing in long-term yields.

At the same time, we are maintaining a large proportion of our bond portfolio in both investment grade and high yield corporate bonds.

While remaining constructive on markets, we decided to continue taking partial profits on some of our global equity holdings. After this reduction, we remain overweight in equities, with a preference for Europe, China and US technology.

We reiterate the value of alternative strategies, particularly trend strategies, in this environment of trend extension. We have therefore increased our positions in alternative trend strategies, which combine price and macro signals, and in our existing global macro strategy.

Emerging Market Sovereign Hard-Currency HY was up by 2.10% in February, while IG was down by 0.61%

	31/12/2022	31/12/2023	29/02/2024	Month-to-Date	Year-to-Date
Yields (%)					
US 3-Month	4.34	5.33	5.38	+2bps	+5bps
German 3-Month	1.56	3.55	3.74	+5bps	19bps
US 2-Year	4.43	4.25	4.62	+42bps	+37bps
German 2-Year	2.74	2.39	2.90	+38bps	+51bps
US 10-Year	3.87	3.88	4.25	+34bps	+37bps
German 10-Year	2.57	2.02	2.41	+24bps	+39bps
Currencies					
EUR/USD	1.0705	1.1039	1.0805	0.12%	2.17%
USD/CHF	0.9245	0.8414	0.8845	2.68%	5.12%
EUR/CHF	0.9896	0.9289	0.9557	2.56%	2.89%
GBP/USD	1.2083	1.2731	1.2625	-0.50%	-0.83%
Commodities					
Oil (WTI)	\$80.3	\$71.7	\$78.3	+3.18%	+9.23%
Copper	\$381.1	\$389.1	\$383.5	-1.83%	-1.44%
Gold	\$1'824	\$2'063.0	\$2'044.3	0.23%	-0.91%

Source: Bloomberg Finance L.P.

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