FFG
FORUM FINANCE
1994

MONTHLY NEWSLETTER

December 2022

KEY ECONOMIC DATA PUBLISHED IN NOVEMBER

- China's Caixin PMI Manufacturing Index rose to 49.4 in November, above market expectations of 48.6.
- China's October exports fell by 0.3% (YoY), below forecasts of + 4.3%; imports contracted by 0.7%, more than the expectations of - 0.3%.
- Economic sentiment in the Euro-zone rose in November (ZEW survey at - 38.7 vs. - 59.7 in October). The PMI Composite index rose from 47.3 to 47.8, above the consensus.
- In Germany, economic sentiment (ZEW survey) rose to - 36.7 in November from - 59.2 in October). The IFO Business Climate Index improved to 86.3, above forecasts of 85.
- US consumer confidence fell to 100.2 in November (forecasts of 99.9).
- The Markit US Manufacturing PMI Index fell to 47.7 in November, well below forecasts. The Services PMI also badly missed forecasts, at 46.1.
- US payrolls in the private sector rose by 233K in October compared to forecasts of + 200K, with September numbers being revised upwards from + 288K to + 319K.

THE DOLLAR INDEX HAD ITS WORST MONTH SINCE 2010

+ 26.6%

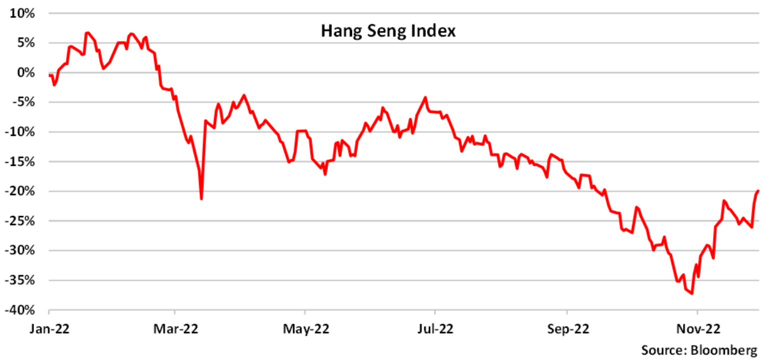
THE REBOUND OF THE HANG SENG INDEX IN NOVEMBER

INVESTMENT PERSPECTIVE

November was a strong month for capital markets, as both equities and bonds performed well. For once, emerging markets' equities outperformed those of developed ones; Chinese equities rallied massively due to a dramatic shift of investor sentiment in the wake of the end of October selloff. The MSCI EM index climbed by 14.6%, compared to a 5.5% gain for the MSCI World index in local currencies, whereas the Euro Stoxx 50 index gained 9.6%. These equity gains were accompanied by another negative month for the US dollar; the 5% monthly drop of the dollar index was effectively its worst since September 2010, and this move contributed significantly to the overall improved market sentiment. The decline of long-term bond yields was another supporting factor for risk assets; the yields of 10-year Treasuries and Bunds declined by 44bps and 21bps to 3.61% and 1.93%, respectively, resulting in increasingly inverted yield curves. Credit and emerging market debt spreads continued to contract at a fast pace. Significant moves were observed in the commodity space also, with the price of gold rising strongly whereas oil prices dropped by more than 6% on concerns about weaker demand.

As in October, one of the drivers for the stronger markets was the narrative that the Federal Reserve was likely to slow the pace of its interest rate hikes. The US central bank is widely expected to rise rates by 50bps at its December meeting following a string of 75bps increases. The fact that the latest inflation data in the US have been below expectations has contributed to the market's optimism relative to the path of the Fed's policy. The market could, however, be at risk of underestimating the terminal Fed fund rate in view of the very resilient job markets, and the fact that the Fed will want to avoid making a mistake by ending its hiking cycle prematurely.

A SPECTACULAR REBOUND OF CHINESE EQUITIES IN NOVEMBER



The chart shows that Chinese equities posted a spectacular rebound last month following an extended period of poor performance. In hindsight, the market selloff that took place after the conclusion of the 20th Congress of the Chinese Communist Party looks increasingly like a capitulation. In November Chinese authorities announced a series of regulatory measures to boost the struggling property sector and, towards the end of the month, also started to loosen Covid curbs after weeks of protests. All these policies contributed to the market rally, with the Hang Seng Index rising by close to 27%; property stocks produced the strongest gains, from depressed levels, but the market's giants such as Tencent, Baidu, and Alibaba also outperformed the index.

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INVESTMENT STRATEGY

The recent rebound of equity markets has obviously been most welcome for the portfolios, but we are reluctant to add to our current equity allocation and we maintain our modest underweight positioning. In our opinion, markets could be overconfident that central banks will soon be ending their hiking cycle. The upcoming economic slowdown could also be accompanied by a declining growth of earnings, as margins contract from record highs, hence our caution.

On the other hand, we think that bond markets offer a more attractive risk/reward at present, and we will be increasing some of our exposures. Investment-grade credit, and funds having the flexibility to manage both duration and credit quality are our current top picks. These funds can allocate to some of the more attractive segments of the bond markets, in areas such as subordinated bonds of investment-grade companies, corporate credit and financials, and corporate hybrids.

MARKETS ARE AT RISK OF UNDERESTIMATING THE TERMINAL FED FUND RATE

PORTFOLIO ACTIVITY/NEWS

November was a positive month for the portfolios thanks to the strong returns of equities and also of bond markets. The best contributions were provided by Chinese and emerging equities, metal mining companies, the European value fund, emerging market corporate bonds, the technology fund and long duration investment-grade bonds. For portfolios with an exposure into gold, it proved to be a rewarding month as the precious metal climbed by 8.3%, as it benefited from lower real bond yields and the weaker dollar. The number of detractors was low. The depreciation of the dollar hurt portfolios not denominated in USD, as did the drop of the trend following CTA strategy, US small caps and the multi-thematic fund.

We were pleased to observe the massive rebound of our Chinese equity fund in November. In last month’s newsletter, we had highlighted why we believed it still made sense to be exposed to Chinese equities, and the recent upside move just shows how difficult it can be to predict trends. It also shows how sentiment is continuing to drive the markets, with the shift in China’s Covid stance towards a loosening of some restrictions contributing to boost market sentiment.

	End 2021	October 2022	November 2022	MTD	2022
Equities					
S&P 500	4’766.2	3872.0	4080.1	+ 5.4%	- 14.4%
Euro Stoxx 50	4'298.4	3617.5	3964.7	+ 9.6%	- 7.8%
MSCI EM	1’232.0	848.2	972.3	+ 14.6%	- 21.1%
Yields					
UST 10-year	1.51%	4.05%	3.61%	- 44 bps	+ 210 bps
Bund 10-year	- 0.18%	2.14%	1.93%	- 21 bps	+ 211 bps
BBB EU	0.95%	4.59%	3.91%	- 68 bps	+ 396 bps
Currencies					
EUR/USD	1.137	0.988	1.041	+ 5.3%	- 8.4%
USD/CHF	0.913	1.001	0.946	- 5.5%	+ 3.6%
EUR/CHF	1.038	0.990	0.984	- 0.6%	- 5.2%
GBP/USD	1.353	1.147	1.206	+ 5.1%	- 10.9%
Commodities					
CRB Index	232.4	274.1	279.8	+ 2.1%	+ 20.4%
Oil (WTI)	USD 75.2	86.5	80.6	- 6.9%	+ 7.2%
Gold	USD 1’829	USD 1’634	USD 1’769	+ 8.3%	- 3.3%