Frame Funds.

In the Frame

Keeping you up to date with Frame Funds and financial markets.

December 2021 // Issue 11

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How our strategies performed in November

IRON ORE, REBOUNDING

A strong bounce off lows, thanks to the Chinese Government

What I saw in November 2021

IRON ORE, TAPERING, OMICRON

November could only be described as a wild month. Equity markets rose with low volatility for the majority of the month, and then along came the new variant named Omicron. Volatility expanded within the last week of the month, and made investors quickly reposition their investments. We witnessed an impulsive move lower in most markets with Omicron used as the excuse, however in our view, market participants were looking for an excuse to reduce equity exposure, in the face of tapering in the US and some major economies.

Iron ore, rebounding

I have written about the iron ore price in the last few In the Frame issues due to the severity of the recent decline and how this has been a classic play by the Chinese government. At the end of October and during November, the Chinese government stated that the price of iron ore (and a selection of other talked down commodities) had reached levels that were more sustainable from a manufacturing and industrial perspective. This communication comforted the market and help iron ore rebound over November. The iron ore contract which trades on the Dalian Commodities Exchange jumped approximately 20% last week alone.

Tapering, when and by how much

At the start of November, the US Federal Reserve stated that inflation was transitory and that if they saw signs inflation was moving consistently beyond levels they want, they will adjust their monetary policy stance. Following this meeting, multiple speakers from the Fed said they may bring their tapering plan forward. By the end of the month, Jerome Powell testified to the Senate and stated they can retire the term 'Transitory Inflation'. This confirms what everyone, bar the Fed, has been saying, inflation is here, and possibly is going to stay a lot longer than we think.

Nu, Xi, Omicron

The first South African doctor, Dr Angelique Coetzee, to alert the authorities about patients with the Omicron variant has stated that although the symptoms of the new variant are unusual, they are very mild and patients recovered after 1-2 days of bed rest. On a side note, most people think the World Health Organisation skipped Nu (New) to avoid confusion, and Xi for political reasons. The WHO labelled it a variant of concern, so although the symptoms are mild, it is worth monitoring closely.

Portfolio performance

During November, we saw mixed performance from both our strategies. Our global macro strategy had a superb month, both absolutely and relatively, it rose +1.285%. The Long Short Australian Equity strategy continued to consolidate at highs, it declined by -1.06%.

The Frame Futures Fund (FFF) had another good month of performance. The core strategy had a solid month of performance, it generated +2.6%, while trading strategies detracted -1.00% from performance.

Largest contributors to the performance were investments in listed iron ore producers (+3.20%) and our Long US Dollar Index Future position (+0.61%). Our investment in the Russell 2000 was the largest detractor (-2.37%).

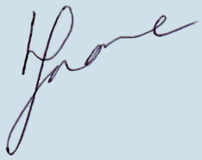
The three & 12-month performance of the FFF continues at a solid +5.12% and +15.96%.

The Frame Long Short Australian Equity Fund (FLSAEF) dropped -1.06%. The strategy had a mixed month of performance as market conditions continue to impact performance.

Largest contributors for the FLSAEF were Fortescue Metals (**ASX: FMG**), Pilbara Minerals (**ASX: PLS**) and Cleanaway Waste Management (**ASX: CWY**), they contributed +0.56%, +0.47% and +0.39% respectively. Largest detractors were Pinnacle Investment Management (**ASX: PNI**), Oil Search (**ASX: OSH**) and Bank of Queensland (**ASX: BOQ**) which detracted -0.64%, -0.49% and -0.39% respectively.

The 12-month performance of the FLSAEF continues at a consistent +8.31%.

If you would like to discuss any of these points, please email me at hue@framefunds.com.au or call our office on 02 8668 4877.



Hue Frame
Managing Director

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Taper Tantrum - Take 2

WRITTEN BY HARRY HEANEY

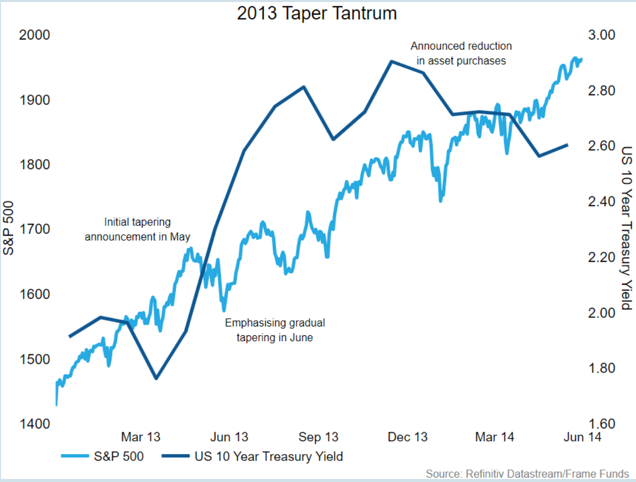
With the Federal Reserve beginning to taper their asset purchases this month (December 2021), the question has to be asked – will we see a repeat of the 2013 taper tantrum?

Recapping what happened in 2013

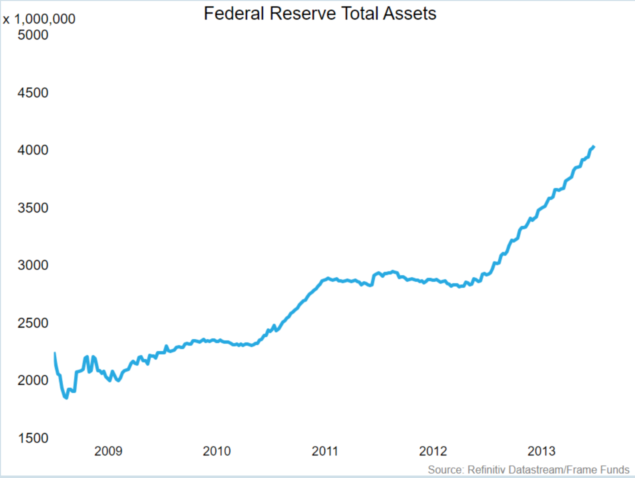
In May 2013, then Fed Chair Ben Bernanke revealed the Fed was thinking about tapering its asset purchases in a testimony before Congress. Equity markets dropped and yields rallied.

A month later during the June FOMC press conference, Bernanke softened market expectations by confirming any purchases would depend on economic outlook and that changes to the bond purchase program would be independent from interest rate policy (sound familiar?). From May highs to June lows, the S&P 500 fell nearly 8%, however stocks seemed reassured after the softer tone in the June FOMC press conference.

When the Fed finally decided to start moderating its bond purchases to the tune of $10bn per month in December 2013, the S&P 500 had risen ~19% from June lows. From the first whispers of tapering in May, to the decision to start in December, the 10-year US government bond yield rose ~140 basis points.



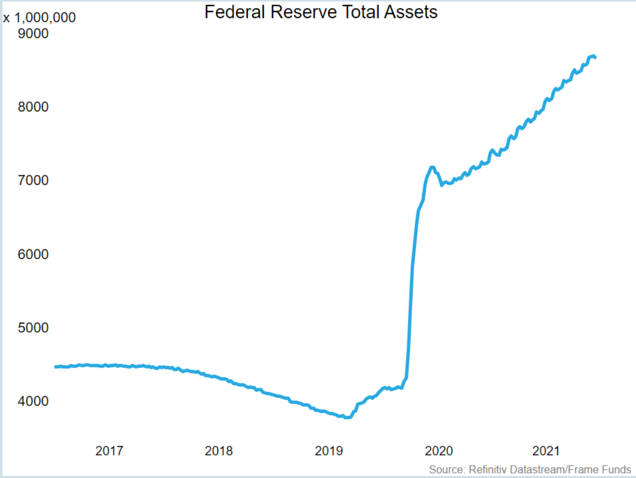
When the Fed decided to begin tapering (December 2013), core PCE inflation was 1.6 per cent, unemployment was 6.9 per cent and total assets held by the Fed were worth a mere $4 trillion.



Over the following years, the 10-year yield steadily declined as money flowed back into bonds. Yields would reach lows in mid-2016 and equity markets rose modestly over the same period (the S&P 500 rose just shy of 15%). The end of 2016 marked the beginning of two years where interest rates rose. Somewhat surprisingly, equity markets also increased sharply until the second half of 2018. As you would expect, yields increased until the Fed signalled it would back off on further rate hikes in late 2018 as the US economy slowed.

Turning to 2021

Now fast forward to the post COVID crash world we live in – core PCE inflation is 4.1 per cent, the unemployment rate is 4.2 per cent and the Fed's assets total $8.66 trillion.



Despite these staggering figures, the Federal Reserve has been determined to not repeat past mistakes and turn their bond purchasing taps off too soon. The result has been one of the most aggressive equity bull markets in history, with the S&P 500 rising ~120% from 2020 COVID lows to 2021 November highs.

In recent months we have seen yields increase at the front end of the curve as rate hike expectations have been priced in. Softer price action in longer dated treasuries has resulted in bearish curve flattening, however. This recent price action implies that the market believes aggressive interest rate increases are required to combat sustained high inflation in the short term, but these hikes will impact growth over the long term.

Conclusion

In opposite fashion to the 'Taper Tantrum' of 2013 where the Fed was the first mover, we are now seeing the market price in more hawkish policy expectations, despite comparatively dovish rhetoric from the FOMC.

We believe the Fed and the market will meet somewhere in the middle. Policy makers will step up their tapering and rate hike timelines, while the market will moderate its interest rate expectations.

If the last time the Fed tapered is anything to go by, we should see bullish times for equity markets ahead. It is our view that moderate tapering will be viewed positively by the market, as it decreases the risk of more aggressive and therefore destabilising monetary policy down the line.

It also affords market participants the comfort that if growth does slow, the Fed has the capacity to reduce rates once again to provide support as needed.

HUE FRAME
Portfolio Manager

HARRY HEANEY
Research Analyst

Global Macro

WRITTEN BY HUE FRAME

Frame Futures Fund

Units of the Frame Futures Fund appreciated by +1.285%. The trading strategies detracted from performance by -1.00%, while the core strategy contributed +2.60%.

Equity and Currency investments contributed +2.17% and +0.61% respectively. Commodity and Fixed Income investments detracted -0.65% and -0.16% respectively.

Global equity markets experienced a wild month of price action, as the focus for investors was split between the path for interest rates in 2022, and a new strain of the COVID-19 virus, Omicron. The former has slowly developed and has become somewhat more predictable, while the latter arrived at an inopportune time. News sources reported that a new strain from South Africa had been identified that seemed to be more transmissible and could possibly avoid vaccines. It was reported on the 26th November, which coincided with a shortened US trading session due to the Thanksgiving holiday. The result of the poor timing saw most US market participants blindsided, which caused over exaggerated price action in some markets. Crude Oil dropped -18% in 3 sessions, while the small cap Russell 2000 and S&P500 were down -7.4% and -3.4% over the same period. At this stage, information about this new strain is patchy at best, so we are waiting for further information from independent sources to determine possible market outcomes.

Largest contributors to performance were our investments in listed iron ore producers (+3.20%), the battery material related Nickel theme (+0.70%) and our Long US Dollar Index Future position (+0.61%). Our investment in the Russell 2000 was our largest detractor (-2.37%).

In terms of fund activity, we trimmed our US Dollar Index Future position, as it has now become the consensus trade and is primed for a pullback. We took advantage of erratic price action within the Nickel market, and initiated positions within the Euro Fixed Income market to provide further risk exposure.

At the conclusion of the month, the Fund held 24 investments.

FUND PERFORMANCE as at 30th November 2021

	1 month	3 months	6 months	12 months
Frame Futures Fund	**+1.29%**	**+5.12%**	**+4.18%**	**+15.96%**
RBA Cash Rate + 3%	+0.25%	+0.78%	+1.57%	+3.14%
Excess Return	**+1.03%**	**+4.34%**	**+2.60%**	**+12.82%**

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Australian Equities

HUE FRAME
Portfolio Manager

HARRY HEANEY
Co-Portfolio Manager

WRITTEN BY HARRY HEANEY

Frame Long Short Australian Equity Fund

Units of the Frame Long Short Australian Equity Fund decreased -1.06% in November. Comparatively the S&P/ASX200 declined -0.92% for the month.

Financial markets and global central banks continued to face off over the timeline of policy tapering and interest rate increases in November. Yields continued to rise for most of the month, at least until news of the new 'Omicron' COVID-19 variant broke out of South Africa. Upon its discovery, money was aggressively pulled from equity markets as uncertainty over the transmissibility and virulence of the new strain circulated.

Fund activity was above average again as the broader Australian market lacked direction. We closed our position in South32 Limited (**ASX: S32**), as commodity markets continued to cool in line with a weaker Chinese economy. Our investments in Blackmores Limited (**ASX: BKL**) and Bank of Queensland Limited (**ASX: BOQ**) were also exited as they continued to underperform expectations. We initiated investments in Lynas Rare Earths Limited (**ASX: LYC**) and Pilbara Minerals Limited (**ASX: PLS**) as the rare earth/battery metal theme continued to show resilience in the face of tough market conditions. We also participated in the Macquarie Group Limited (**ASX: MQG**) placement at a slight discount.

Top equity contributors were Fortescue Metals Group (**ASX: FMG**), Pilbara Minerals Limited (**ASX: PLS**) and Cleanaway Waste Management Limited (**ASX: CWY**), they contributed 0.56%, 0.47% and 0.39% respectively. Our patience and ability to accumulate Fortescue at lower levels was rewarded, as the iron ore price rebounded solidly after selling pressure finally abated. Pilbara rose with the lithium price, while Cleanaway continued on trend.

Largest detractors were Pinnacle Investment Management Limited (**ASX: PNI**), Oil Search Limited (**ASX: OSH**) and Bank of Queensland Limited (**ASX: BOQ**), which detracted 0.64%, 0.49% and 0.39% respectively. Pinnacle fell after they announced a raising to acquire 25% of Five V Capital. Their Executive Director also announced the sale of a portion of his shares. Oil Search suffered from the sharp decline in the price of oil after the Omicron variant news, while Bank of Queensland was not immune to broader financials sector weakness. Our heaviest weighted sector is now materials at 21.28%.

At the conclusion of the month, the Fund held 21 investments.

FUND PERFORMANCE as at 30th November 2021

	1 month	3 months	6 months	12 months
Frame Long Short Australian Equity Fund	**-1.06%**	**-5.94%**	**-2.17%**	**+8.31%**
RBA Cash Rate + 3%	+0.25%	+0.77%	+1.56%	+3.14%
Excess Return	**-1.31%**	**-6.71%**	**-3.73%**	**+5.17%**

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