Frontier MFG Global Plus Fund
Institutional Class (FMGPX), Service Class (FMPSX)
Sub-advised by MFG Asset Management – Sydney, AU

FRONTIER FUNDS

Quarterly Commentary, December 31, 2021

Global stocks surged to record highs in the quarter ending December 31, 2021, as concerns abated about the economic damage of the new Omicron COVID-19 variant, U.S. companies posted stellar earnings reports, and U.S. Congress postponed a debt-ceiling showdown and passed more stimulus. The rise occurred even though the Federal Reserve decided to reduce its asset purchases after U.S. inflation reached a 39-year high and inflation accelerated worldwide. During the quarter, 10 of the 11 sectors rose in US-dollar terms. Information Technology (+13.2%) rose the most while Communication Services (-1.7%) was the sector that fell.

U.S. stocks climbed as better jobless numbers and encouraging reports on earnings, especially from the banks and Big Tech, prompted investors to brush aside concerns that inflation is being entrenched. A report showed consumer prices climbed 6.8% in the 12 months ending November 30, 2021, the most since 1982. In response, the Federal Reserve said it would accelerate its "tapering" of monthly bond purchases. The central bank said it would prune its asset buying such that in January it would buy only US$60 billion of Treasuries and mortgage-backed securities compared with US$120 billion a month pre-tapering, while most Fed policymakers said they were prepared to raise the U.S. cash rate three times in 2022. While reports showed an economy at full employment (the jobless rate fell to a pandemic low of 4.2% in November), the U.S. economy expanded at a revised annualised rate of only 2.3% during the quarter ending September 30th. In political news, the House of Representatives, over the unanimous opposition of Republicans, passed the US$2.2 trillion Build Back Better Act only for the centerpiece of President Joe Biden's domestic agenda to be blocked in the Democrat-controlled Senate. The House, with some Republican support, approved a US$1.2 trillion infrastructure package that had already passed the Senate. A proposal to raise the federal government's borrowing limit by US$2.5 trillion passed both chambers of Congress just before the December 15th deadline.

European stocks advanced on encouraging earnings results and improved economic news. A report showed the eurozone economy expanded 2.2% in the quarter ending September 30th after pandemic restrictions eased, the same speed it grew in the June quarter. A report that showed eurozone inflation reached 4.9% in the 12 months ending November 30th proved no dampener after the European Central Bank indicated it would not overreact to rising prices.

The Fund recorded a positive return in the quarter ending December 31st. The biggest contributors included the investments in Microsoft, Intercontinental Exchange and PepsiCo. Microsoft surged on a 22% jump in revenue for the third quarter as its cloud business benefited from the global shift to remote work. Intercontinental Exchange rose as energy derivative volumes climbed on the back of rising energy price volatility. PepsiCo gained after the drinks and snacks company raised its forecast for full-year earnings when announcing third-quarter profit and revenue (9% "organic" growth) numbers that beat expectations.

The biggest detractors included the investments in Alibaba Group & Meta Platforms. Alibaba dropped after the Chinese tech company announced sales figures that disappointed for a second straight quarter and lowered its fiscal outlook for 2022, which fanned concerns about slowing consumer spending in China. Still, Alibaba announced a 29% rise in revenue for the September quarter and forecast 20% to 23% growth in fiscal 2022 revenue, rather than the 27% analysts were expecting. Meta fell after the renamed Facebook warned revenues in the fourth quarter will be knocked further by Apple's privacy changes that restrict its ad-targeting, its third-quarter revenues fell short of expectations on Apple's restrictions, and the company faced a public-relations blow and possible legal difficulties after a former employee exposed issues at the social-media company and that it was losing younger audiences.

In the next 18 months or so, we see two broad scenarios that could occur. Both appear equally likely.

The first is a grind higher in equity returns, driven by a smooth transition to slower economic growth on the back of a modest withdrawal of record levels of fiscal and monetary accommodation. In this scenario, equity returns will be attractive but below those achieved in recent years. The second scenario is a market slump. As well as the well-known risk of higher inflation and policy interest rates, this could also be driven by COVID variants, slower-than-expected Chinese growth or tensions in the Middle East that disrupt global energy supplies. Importantly, these risks could occur around the same time.

In the medium term, we believe that investors should be prepared for returns that are below those recorded in the past 20 or so years that have been helped along by a sustained reduction in interest rates. COVID-19 has not changed the longer-term economic outlook and thus the global economy remains structurally low growth and low inflation, resulting in structurally low interest rates. What has changed is a steep rise in government debt and potentially a greater acceptance of central-bank-financed government deficits.

The Fund's cash holding rose slightly to approximately 8.5% over the past three months.

Index movements and stock contributors/detractors are based in local currency terms unless stated otherwise.