MIRANTE FUND MANAGEMENT

Market Overview.

MAY 2021

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STRONG AND SYNCHRONISED GROWTH.

One of the particularities of the start of this new economic cycle is the significant and synchronised growth. Indeed, fiscal and monetary policies in all regions are pushing simultaneously in the same direction. It explains much of the strength of the rebound as economies reopen. In many areas, the lifting of restrictions has led to a sudden improvement in consumption. High-frequency economic indicators, such as mobility and spending, responded immediately. It implies that the positive economic surprises could continue. The bold $1.8 trillion plan for American families has only reinforced this optimism. It is the most ambitious attempt to expand social programs in the US since the 1960s.

At the corporate level, the earnings season is in full swing. Analysts' pessimism is generating a high rate of positive surprises. Companies in almost all sectors are providing positive outlooks. They often increase their objectives and announce significant investments. Overall, demand is up, supply is down, and supply chain inventories have rarely been so low. Supply chains are under pressure and shortages in semiconductors are not helping the situation. Indeed, raw material costs are among the most frequently cited obstacles for companies in the coming quarters.

OPTIMISM ACROSS ASSET CLASSES.

The main asset classes performed strongly. Optimism about the economic recovery and a great start of the earnings season encouraged investors to move into riskier investments. The two best performing asset classes were commodities and real estate. Commodities benefited from the economic recovery and supply chain congestion. Real estate continues to benefit from the reopening of the economy. It remains the best performing asset from the beginning of the year.

The astronomical cost of the ambitious new U.S. plan announced recently under the slogan «once-in-a-lifetime opportunity» to renovate aging infrastructure with strong social and environmental aspects should be financed by tax increases. As a result, the US equity markets continued their progress, posting the best performance of the month. After a solid start of the year, Japan lost some ground due to a resurgence of the pandemic. At a sector level, communications services and technology benefited from the impressive results of the US internet giants.

In fixed-income, yields fell slightly in the US, allowing long-duration bonds to deliver a positive performance. In Europe, on the contrary, yields continued to rise. Emerging market bonds in local currency benefited from the strength of commodities and investors' risk appetite.

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What does history tell us: will consumers spend their excess savings?

A recent paper by Goldman Sachs, estimates that in 1946-49 American consumers spent only about 20% of their excess savings. Beer consumption, which generally follows economic growth, even decreased during this period.

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MACROECONOMIC OUTLOOK: ALREADY AT A PEAK.

We may be close to the peak of the recovery. Indeed, growth rates could start to decline in the second half of the year. Overall, the economy will continue to grow, but at a slower pace. The analyst consensus for global growth stands at 5.8% for 2021 and at 4.1% for 2022, still well above the long-term average growth rate of about 3%. Even if growth slows, the synchronization of the rebound across all regions should support corporate earnings. If the announced corporate spending is confirmed, it could even take over from the shrinking fiscal and monetary policies. However, these policies will continue to support economies for the foreseeable future.

A difficult question for companies in the short term is whether raw material costs and potential labor shortages would significantly erode their margins. In the longer term, two scenarios are now plausible. The first is a remarkable expansion of the world economy in the next few years. This would be driven by the end of the pandemic, a record level of consumer savings, and a consumption boom, particularly with the advent of Chinese consumption. In this scenario, the main risk will be linked to inflation fears. It could cause a painful rise in interest rates for most asset classes. The second scenario represents a return to modest growth following the post-crisis rebound. Demographics and modest productivity gains could promptly dictate the level of global growth despite all the liquidity injected into the systems.

POSITIONING OF OUR INVESTMENT STRATEGIES.

The future will probably crystallize between these two scenarios. In the high growth scenario, interest rates will rise. If they rise because the economy is expanding, this will not bother financial markets. On the contrary, if interest rates rise sharply because of inflation, the problem will be much more complex.

The long-term positioning is to remain invested, with a controlled level of risk, in a context of strong growth as well as low interest rates and anemic growth. Despite the current rise in interest rates, the valuation of equities remains favorable compared to bonds. Alternative strategies should be able to provide diversification. Real estate could benefit in the medium term from both scenarios. If the economy is expanding strongly, the hard-hit sectors will perform well, while in a modest growth environment, it should provide the stable returns investors seek.

In terms of risk, we believe that a highly diversified approach is essential in both scenarios. Similarly, after the solid equity performances we have just experienced, equity markets will be more vulnerable to bad news in the short term. It, therefore, seems essential to diversify the sources of returns across asset classes, regions, and investment themes while maintaining an optimal allocation that can meet long-term investment objectives.

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MAIN DRIVERS.

GLOBAL GROWTH	→ Potential consumption boom → Peak of recovery (in terms of growth) in 2Q
EARNINGS GROWTH	→ Earnings growth will dictate performance of equities → Positive outlook from management, but margins at risk on raw material prices and supply chain issues
INFLATION	→ Commodity prices & consumption boom ==> short-term inflation but "not persistent" → Inflation could be a self-fulfilling prophecy
INTEREST RATES	→ Fast movement on rates generates a discount-rate shock → Structurally could remain very low for longer due to demographics & productivity
RECESSION RISK	→ Entering a new cycle, but pandemic risks remains → Uneven recovery with huge divergences between regions
FINANCIAL STABILITY	→ Fiscal and monetary stimulus has worked, banks are more solid than before, → Banks are more robust than in the past

Negative Neutral Positive

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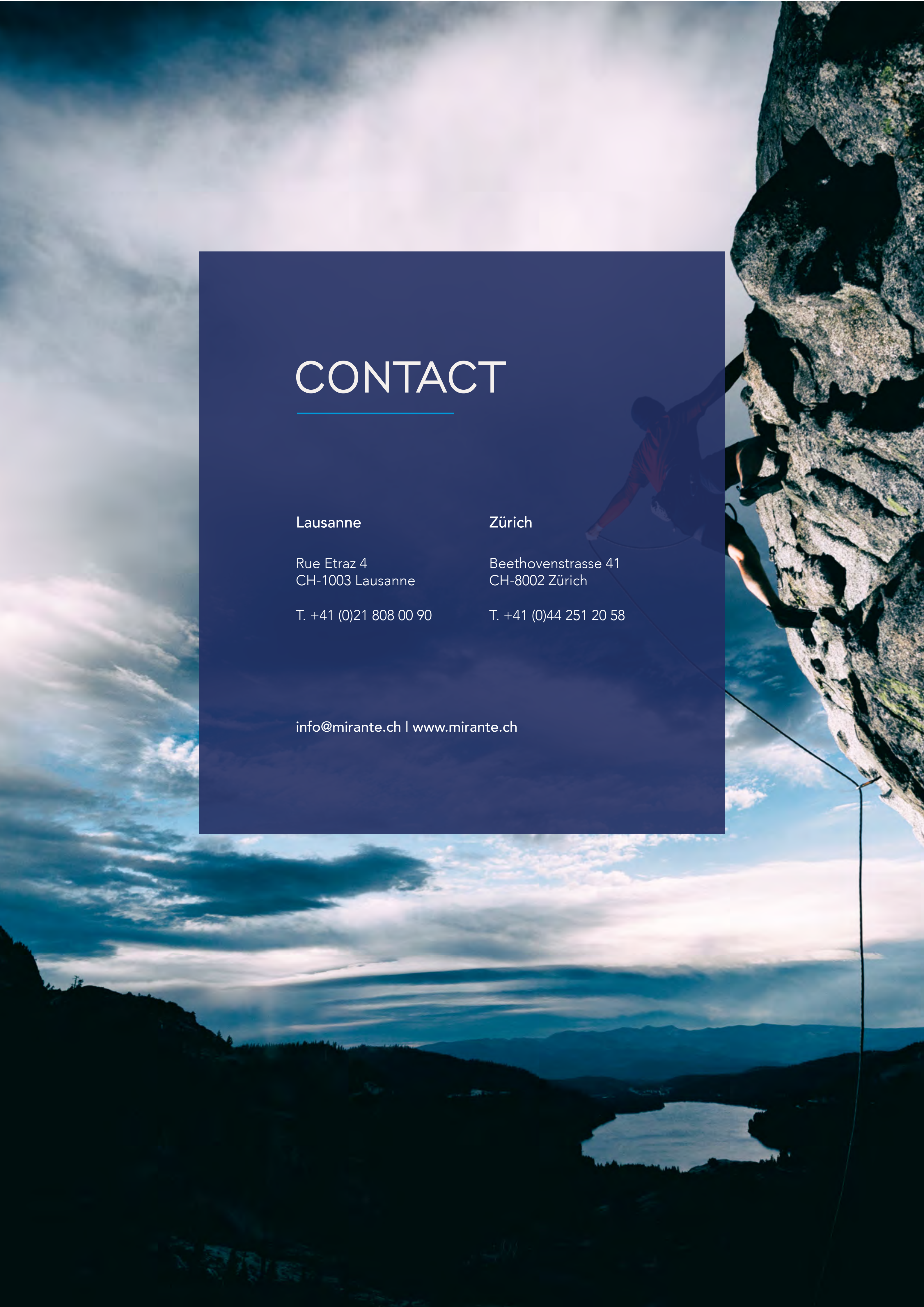
MONTHLY PERFORMANCE / APRIL 30TH.

Equities Market (LCL)	
US (S&P 500)	5.24
World (MSCI All Countries)	4.24
Brazil (Ibovespa)	1.94
United Kingdom (FTSE 100)	1.61
China (CSI 300)	1.49
Europe (EURO Stoxx 50)	1.42
Germany (Dax)	0.85
Switzerland (SMI)	-0.23
Japan (Nikkei 225)	-1.25

Equities Sector	
Communication Services	6.71
Information Technology	5.44
Consumer Discretionary	5.13
Material	5.10
Financials	5.03
Health Care	3.74
Utilities	2.94
Consumer Staples	2.72
Industrials	2.63
Energy	0.32

Fixed-Income	
Emerging Market Local Sovereign	2.57
US Long Treasury	2.33
U.S. Corporate long duration	1.73
International Treasury Bonds (ex-US)	1.71
Global Inflation-Linked Bonds	1.44
Global Corporate Credit	1.36
Global Convertibles Bonds Hedged	1.34
Emerging Markets Corporate	1.33
Global Treasury Bonds	1.23
US Corporate High-Yield	1.09
Pan-European Corporate High-Yield	0.44
Swiss Bond (SBI / AAA-BBB)	-0.16

Others	
Commodities (BCOM)	8.29
Real-Estate (FTSE NAREIT)	8.06
Hedge Funds	1.76



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