MFM

MIRANTE FUND MANAGEMENT

Market Overview

JUNE 2022

We believe in active management based on a structured investment process to ensure optimal diversification in terms of asset classes, types of financial instruments and geographic sectors. Risk management is an investment tool fully integrated into the portfolio construction process.

The benefits of this approach are numerous: the reduction of risk against significant market declines, as well as the potential to create increased value over the long term.

Frank Crittin, Chief Investment Officer

FROM OVERHEATING TO RECESSION?

In the last few months, the world economy has suffered two shocks. The exit from the pandemic generated the first. Euphoric American and European consumers with increased purchasing power have caused a shock in demand. This shock strongly disrupted global supply chains. The consequence was a sharp rise in inflation. This first shock was followed by a second, more sudden, on the supply side. Indeed, the Russian invasion of Ukraine caused commodity prices to soar, pushing inflation to spectacular levels. Investors quickly became concerned about the extent of the tightening of central bank policies induced by this explosion of inflation, especially about the consequences on financial asset prices. The response was scathing and painful. All asset classes fell sharply.

At the beginning of the month, interest rates stabilized. Then recession's fears were heightened by inflation and rising interest rates, but above all by the drastic measures taken by the Chinese government to stop the spread of the coronavirus. Indeed, if China slows down too much, it can take the entire global economy with it. This increase in risk aversion pushed risky assets into negative territory and slightly lower interest rates.

In terms of bond asset performance, it remained positive for defensive and short maturity bonds. Those considered riskier regarding credit quality ended the month in negative territory. To confirm that the price boom may have peaked in the US, inflation-linked bonds also posted a negative performance. Convertible bonds, despite their reduced sensitivity to equities, were affected by the latter's poor performance.

In equities, the energy sector remains an isolated case, as it once again posted a solid performance. On the positive side, we also find financials, which should benefit from higher interest rates, and utilities, especially those exposed to the energy markets. The consumer sectors were impacted by increasing pressure on their margins. U.S. retailers, such as Walmart and Target, reported disappointing results. They saw an increase in inventories due to changes in consumer buying habits and significant cost increases. Regionally, Switzerland was the weakest performer, impacted by the franc's strength, which affected export sectors such as manufacturing, materials and luxury goods.

Real estate also showed a negative performance. The most affected sectors were logistics and warehousing, highly exposed to a slowdown in global demand. On the other hand, the best performing real estate sector was healthcare, helped by its defensive nature.

NUMBER OF THE MONTH:

50 years and above

China's population is set to have a disproportionate number of elderly people – by 2050, those aged 50 and above will represent the largest share of the population.

Source : Worldbank, 2022

MACROECONOMIC OUTLOOK

Investors are now asking themselves whether the market collapse is not a harbinger of a more profound economic crisis. Of course, there are many negative catalysts: exploding inflation, rising rates, containment in China, commodity prices, slowing global demand, and the war in Ukraine. But, although the risk of recession is high, the leading indicators of economic contraction are not present today.

However, as the economy is cyclical in nature, the question is not whether there will be a recession but when it will materialize. It does not appear that this is imminent, at least not in the next few quarters. The consensus is for a potential recession in the second half of 2023. From a fundamental standpoint, inflation will likely moderate in the next few quarters. The labour market remains historically tight and could withstand a moderate economic slowdown. Finally, companies are announcing slowing future profits but still high in absolute terms, and credit spreads are still far from the levels reached in previous recessions.

POSITIONING OF OUR INVESTMENT STRATEGIE

Regarding positioning, we do not bet on any potential scenarios but try to build strategies that can go through these various scenarios with as much resilience as possible. Even if both stocks and bonds have declined since the beginning of the year, negating the benefits of diversification, this does not mean that they are no longer working. Historically, episodes of high correlation between bonds and stocks have not lasted. Moreover, if the economy slows down significantly, the rise in interest rates will likely slow down, and, as a result, bonds will regain their role as a stabilizer.

At the bond level, we maintain a cautious approach. We are taking advantage of rising interest rates to invest in government bonds, which are considered defensive and offer attractive returns. We continue to allocate risk towards credit rather than significantly increasing the duration risk of our strategies.

In equities, valuations have fallen and are close to average historical values. In the short term, valuations do not influence performance. However, in the longer term (above five years), they indicate that the expected return will be higher. Tactically, we continue to add exposure to the more defensive sectors that should perform better in a severe economic downturn. The healthcare sector, in particular, combines attractive income growth with less exposure to economic fluctuations.

We prefer active management that favours long-term strategic diversification to bold tactical bets. Robust portfolio construction remains central to cushioning the expected fluctuations in risk appetite across asset classes. This allows us to optimize the risk-return profile of all portfolios to withstand the numerous macroeconomic scenarios.

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MAIN DRIVERS

SOURCE: MFM, June 2022

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MONTHLY PERFORMANCE, 31 MAY

Equities Market (Local currency)	
United Kingdom	1.33
China	1.27
Japan	0.92
Europe	0.75
Asia (ex-Japan)	0.23
Emerging Markets	-0.17
World (all countries)	-0.23
United States	-0.27
Switzerland	-4.48

Equities Sector (Local currency)	
Energy	12.95
Utilities	2.65
Financials	2.30
Telecommunication Services	1.07
Health Care	0.20
Materials	0.17
Industrials	-0.99
Information Technologies	-1.66
Consumer Discretionary	-3.89
Real Estate	-4.01
Consumer Staples	-4.19

Fixed-Income (USD Hedged)	
Global Aggregate 5-7 Year	0.32
Global Aggregate 1-3 Year	0.28
Global Corporate Credit	0.20
Global Aggregate	-0.14
Emerging Market Hard Currency Aggregate	-0.14
Global High-Yield	-0.35
Global Inflation-Linked Bonds	-0.42
Global Treasury	-0.54
Swiss Bond Index AAA-BBB (CHF)	-0.59
Global Aggregate Long Duration	-1.52
US Treasury Long Duration	-1.89
Global Convertibles	-3.64

Others (USD)	
Commo Global (ThomsonReuters)	1.44
Hedge Funds	0.00
Commo Industrials (CBR)	-0.64

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