MIRANTE FUND MANAGEMENT

Market Overview

FEBRUARY 2023

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

RETURN OF OPTIMISM

During this first month of the year, most asset classes posted positive performances, contrasting sharply with last year's ones.

But why this sudden surge of optimism? The overriding factor is undoubtedly inflation. Indeed, it seems to have reached its peak. As a result, investors are now focusing more on the risks associated with the slowdown in the global economy. The latest macroeconomic data in this area is mixed. Some show a sharp downturn in the European and American economies, while others, such as employment, remain remarkably robust. The consensus today predicts that the United States and Europe should be able to avoid a severe recession. This positive outlook is amplified by news from China. Indeed, the radical shift in its policy towards the pandemic suggests that the Chinese economy could rebound strongly in the coming months. In this environment, all asset classes posted robust returns.

At the equity level, all regions recorded a positive performance. China posted the most robust performance. The United States and Europe benefited from the start of the earnings season. While reported earnings and executive outlooks are mixed, the stock reaction in terms of performance has been quite positive. This indicates that investors favour a somewhat optimistic scenario in which companies manage the slowdown in the global economy.

In terms of sectors, those exposed to the growth factor, such as consumer discretionary, telecommunication services and technology, performed best. The performance of financial companies was also robust, confirming that investors are not pricing in a major recession and a short-term financial crisis.

Only the utilities and healthcare sectors posted a negative performance. They were penalized by their defensive side, which was shunned by optimistic investors .

In the bond sector, investors anticipated a slowdown in the rise in interest rates in the United States. This confirms that inflation has reached its peak and that the speed of the rate increase should decrease in the coming months. The effect on long-term interest rates was significant, particularly in the United States. Therefore, not surprisingly, long-duration US bonds performed best. We also note the excellent performance of convertible bonds, which benefited from the equity sensitivity of their underlying. On the other side of the spectrum, unsurprisingly, the more modest performance came from short-dated and inflation-linked bonds.

POSITIONING OF OUR INVESTMENT STRATEGIES

With inflation easing, it is clear that investors' attention will be on overall growth. The International Monetary Fund has revised its growth forecast for the global economy upwards to 2.9% in 2023. This remains well below the long-term average of 3.8% but it does not indicate a sharp contraction. However, core inflation continues to rise in most economies, partly due to a strong labor market. The level at which inflation becomes anchored will majorly impact investment strategies. Moreover, the European energy crisis, which benefited from a mild start to winter, could resurface next year without Russian gas, with China in full economic recovery, a major consumer of energy and raw materials. This could stoke inflationary fears. Financial stability is not at risk, but with leading economies close to recession, some unpredictable events could have harmful consequences.

Regarding asset allocation, our «World Equity Risk Premium» indicator continued to fall despite interest rates declining over the month. The latter was fully offset by the reduction in corporate profits combined with the excellent performance of the equity markets. This indicator continues to warrant an increased allocation to bonds versus equities. Indeed, as most of the rate hike cycle is likely behind us, bonds should generate favourable returns. Therefore tactically, we continue to increase exposure to defensive bonds with short maturities. The goal is to take advantage of these higher yields while protecting against potential upward rate movements. They could even generate positive real returns in the global economy and once again play their role as shock absorbers in multi-asset strategies.

On the equity investment premium side, despite this upbeat start to the year, the strength of the recovery is unlikely to continue steadily. However, this demonstrates to investors the importance of remaining invested, despite many gray areas. In the coming months, fears of a recession and moderate growth in corporate profits will be the catalysts for the jolts. That's why, in terms of portfolio construction, we focus on resilience through investments that can withstand a downturn in the global economy. The objective is to remain invested with controlled risk exposure and use periods of higher volatility to rebalance and diversify strategies to generate value over the long term.

FIGURE OF THE MONTH:

1.417 billion

According to the World Population Review, India may have overtaken China to become the most populous country in the world by the end of 2022. India's population is estimated at 1.417 billion, about 5 million more than that of China.

PERSPECTIVES MACRO-ÉCONOMIQUES

Main markets' drivers

GLOBAL GROWTH

- → Global growth is slowing. The main question for each region is "major recession or mild slowdown?".
- → Mild weather has helped avert the energy crisis in Europe
- → China is a reason to be optimistic: the reopening of its economy should support global growth.

EARNINGS GROWTH

- → Earnings growth will be firmly negative in 1H23, but could are likely to begin a cyclical recovery by mid-2023
- → Margin are resilient but risk level remains high, as margins could compress once the labor market softens.

INFLATION

- → Peak reached but…
- → US scarcity of worker could sustain high inflation
- → Europe energy subsidies is pure fiscal stimulus and could exacerbate inflation in the mid term
- → With the rebound of Chinese economy, it could generates inflationary pressures
- → Anchoring: Inflation expectation is the focus as will have a strong impact on long-term expected return
- → The long term drivers of low inflation, like profitability and demography remain in place

INTEREST RATES

- → Central banks have a long way to go before they can be sure inflation is under control
- → Global tightening continuing through the first quarter of 2023 but we're closer to the end of the tightening cycle than the beginning
- → QT (quantitative tightening) will likely create only moderate pressure at the long end.

SOURCE: MFM, February 2023

MIRANTE FUND MANAGEMENT

MONTHLY PERFORMANCE, 31 JANUARY

Equities Market (Local currency)

China	11.75
Europe	8.67
Asia (ex-Japan)	6.94
United States	6.55
Emerging Markets	6.54
World (all countries)	6.50
Switzerland	5.37
Japan	4.68
United Kingdom	4.07

Equities Sector (Local currency)

Consumer Discretionary	13.95
Telecommunication Services	12.67
Information Technologies	9.85
Materials	9.14
Real Estate	8.75
Financials	7.94
Industrials	5.11
Energy	2.35
Consumer Staples	0.40
Utilities	-0.42
Health Care	-1.09

Fixed-Income (USD Hedged)

US Treasury Long Duration	6.41
Global Convertibles	4.76
Global Aggregate Long Duration	4.06
Global High-Yield	3.86
Global Corporate Credit	3.48
Emerging Market Hard Currency Aggregate	2.94
Global Aggregate	2.30
Global Aggregate 5-7 Year	2.29
Swiss Bond Index AAA-BBB (CHF)	2.29
Global Treasury	1.89
Global Inflation-Linked Bonds	1.19
Global Aggregate 1-3 Year	0.75

Others (USD)

Commo Industrials (CBR)	2.20
Hedge Funds	1.67
Commo Global (ThomsonReuters)	-0.89

CONTACT

Lausanne

Rue Etraz 4
CH-1003 Lausanne

Zürich

Bleicherweg 47
CH-8002 Zürich

T. +41 58 590 10 00

info@mirante.ch | www.mirante.ch