MFM

MIRANTE FUND MANAGEMENT

Market Overview

APRIL 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

WEALTHBRIEFING SWISS EAM AWARDS, ZURICH 9TH MARCH 2023.

" We are extremely honoured to have been awarded the prize for best independent wealth manager in the canton of Vaud for the 2nd time. This award recognises the daily commitment of our entire team to our clients and underlines the quality and performance of our comprehensive wealth management services. It is a great testimony for our company which is celebrating its 20th anniversary this year."

Jean-Marc Gavillet
Head of Wealth Management

A CRISIS OF CONFIDENCE

«In order to contain inflation, central bankers need to tighten monetary policy until something breaks.» This old adage came to fruition in March. The failure of the Silicon Valley Bank generated a major shock wave through the entire financial system. In the United States, other banks disappeared in its wake and the American state had to intervene strongly in order to ensure the liquidity of the system. But it was in Switzerland that the backlash was the most brutal. After eroding the confidence of its customers and investors for many years, Credit Suisse collapsed. The state pushed UBS to buy the rubble in order to avoid a catastrophe for the Swiss economy and a likely destabilization of the entire European and global banking system.

During the month, the crisis of confidence that threatened the global banking system disrupted the performance of all asset classes. Indeed, these bankruptcies prompted investors to speculate that central banks would pause, or even halt, their interest rate hike policies. In addition, the tightening of financial conditions induced by this banking crisis will contribute to slowing lending to businesses and individuals. This should consequently reduce economic activity, and finally, by extension, inflation. Investors thus went during this month from a major fear for the stability of the financial system to a potential halt in the rise in interest rates, considered as positive for most asset classes.

Surprisingly, equities ended the month in positive territory driven by the strength of the technology sectors which more than offset the weak performance of the banking sector. Tech companies benefited from their financial strength and the potential slowdown in rate hikes. Indeed, the lower the rates, the more the future benefits are valued, as we have learned over the past year. It should be noted, however, that it was mainly the «blue chips», i.e., the world's large market capitalizations, which contributed to this strong performance. The financial sector, sunk by the banking companies, logically ended the month in strong negative territory. Confidence is hard to restore, and even after government intervention, investors remain nervous about the health of banks and their potential to generate profits in the current environment. Real estate was also under pressure during the month. The fear of investors is mainly related to commercial real estate. Office buildings are empty and stores have, for the most part, not recovered their pre-pandemic customers. In addition, many real estate companies will have to refinance themselves with significantly higher interest rates or sell their assets at drastically lower prices. Although real estate in the medium term offers protection against inflation (indeed, most rents are indexed to inflation), the meteoric rise in interest rates has put the sector under pressure. Regionally, China continued to lead the pack. It benefited from the relative insulation from the turbulence of the American and European banking systems. She has also benefited from the party's positive change in tone towards its technology companies.

On the bond side, volatility rose sharply during the month. Investors now believe that the Fed is likely to lower key rates by the end of the year. Moreover, the US ten-year rate went from 3.9% at the end of February to 3.4% at the end of the month. All bond assets exhibiting long durations (with distant maturities) benefited greatly. For multi-asset strategies, it should be noted that at the beginning of the month, at the heart of the crisis, bonds again played their role of shock absorber, thus regaining their advantage in terms of diversification compared to equities.

A SLOWING BUT RESILIENT ECONOMY

One of the direct consequences of the banking crisis will be the tightening of credit conditions. Companies will have more difficult access to credit with higher rates. Numerous academic studies demonstrate the close link between growth and the tightening of credit conditions. The chairman of the Fed confirmed this recently. The prospects of an economic slowdown are not, in theory, exciting for investors. This time, however, it might be different. A slowdown in the economy should mechanically dampen inflation and thus reduce the pressure on interest rates. This is now a consensual scenario. The question remains, however, over what time horizon this scenario will materialize. A positive surprise could come from Chinese growth, which is showing encouraging signs. Moreover, both in the United States and in Europe the labor market and the appetite for consumption remain robust. They could mitigate the strength of the expected downturn.

In terms of allocation, our «MFM World Equity Premium» indicator has strengthened significantly, even if it remains at historically low levels. This indicates that an allocation to bond investment premiums remains valid. Indeed, the fall in interest rates, and therefore in expected bond returns, was offset by the performance of the equity markets, which mechanically reduced the expected returns on this asset class.

The dominant theme for portfolio construction remains focused on finding resilience through investments capable of weathering a sharp downturn in the economy and fears about the stability of the financial system. It does not seem appropriate to take bets directional in overall growth, because the forecast of its direction and magnitude is highly random. For equities, if the economy slows, it is likely that future earnings forecasts will have to be revised downwards and thus reduce the price of these assets. Conversely, if inflation and interest rates stabilize, valuations may benefit.

Therefore, a well-diversified and quality-oriented approach seems adequate. Periods of high volatility can be used to rebalance portfolios by optimizing long-term allocation. Finally, as bonds have found their diversifying effect in case of turbulence of the market's actions, it remains interesting. In the bond world, credit and interest rate premiums make it possible to increase the level of diversification of most investment strategies. They also provide excellent returns, in particular, compared to the premium of equities.

We are convinced that controlled diversification across asset classes, sectors, regions and investment factors makes it possible to design resilient approaches that optimize the risk-return trade-off and promote a long-term vision, particularly in chaotic macroeconomic environments.

FIGURE OF THE MONTH:

71%

the increase in India's gross domestic product over the past decade

MAIN DRIVERS SUMMARY

GLOBAL GROWTH

- The banking turmoil that has emerged will likely increase lending standards, raising loan rates and tightening overall credit conditions, which should have a cooling effect on the economy.
- The question remains, however, as to the time horizon for this scenario to materialise.
- The slowdown could be moderate as both the US and European labour markets and consumer appetite remain robust.
- The reopening of China should support global growth, even if the housing market remains under pressure.

EARNINGS GROWTH

- With valuations remaining relatively high, it will likely take a strong earnings season to drive stocks higher given the slowing economy and tightening credit and lending markets.
- Margins are resilient, but the level of risk remains high, as they could contract if unemployment rises significantly.

INFLATION

- A slowdown in the economy should mechanically dampen inflation.
- The peak is reached but...
- Labour shortages in the US could keep inflation high.
- European energy subsidies are a pure fiscal stimulus and could exacerbate inflation in the medium term.
- If the Chinese economy rebounds in the same way as the Western economies after the pandemic, this could support inflationary pressures.

INTEREST RATE

- "In order to contain inflation, central bankers need to tighten monetary policy until something breaks."
- A slowdown in the economy should mechanically ease inflation... and thus reduce the pressure on interest rates.
- The extraordinary financial support that the states have provided to stabilise the banks could allow the centraurx bankers to continue their fight against inflation, convinced that the worst of the banking crisis is over.
- QT (quantitative tightening) will probably only create moderate pressure on long-term rates.

SOURCE: MFM, April 2023

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MONTHLY PERFORMANCE, 31 MARCH

Equities Market (Local currency)

China	4.31
United States	3.50
Asia (ex-Japan)	2.88
World (all countries)	2.48
Europe	2.37
Emerging Markets	2.16
Japan	1.58
Switzerland	1.47
United Kingdom	-2.70

Equities Sector (Local currency)

Information Technologies	9.76
Telecommunication Services	8.56
Utilities	4.35
Consumer Staples	3.93
Consumer Discretionary	3.12
Health Care	2.63
Industrials	1.10
Materials	0.71
Energy	-2.20
Real Estate	-2.58
Financials	-8.42

Fixed-Income (USD Hedged)

US Treasury Long Duration	4.74
Global Aggregate Long Duration	3.79
Global Treasury	2.47
Global Inflation-Linked Bonds	2.41
Global Aggregate	2.22
Global Aggregate 5-7 Year	2.19
Global Corporate Credit	2.13
Global Aggregate 1-3 Year	1.10
Emerging Market Hard Currency Aggregate	1.04
Swiss Bond Index AAA-BBB (CHF)	0.55
Global High-Yield	0.48
Global Convertibles	0.32

Others (USD)

Commo Global (ThomsonReuters)	2.41
Commo Industrials (CBR)	0.56
Hedge Funds	0.32

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