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MIRANTE FUND MANAGEMENT

Market Overview

MAY 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

SURPRISES... POSITIVE BUT CAUTIOUS

Investor optimism strengthened during the month despite the violent shocks generated by the banking system. The hope that the United States are approaching the end of the rate hike cycle is probably the main reason, despite inflation that seems to be settling in for a long time. Most asset classes continued their recovery, led by equities and bonds. Macroeconomic data continues to send ambiguous messages to investors. Overall growth is slowing, but remains robust. If this is unexpected in the United States, it is disconcerting in Europe. A year ago, the energy crisis caused by the war in Ukraine was expected to generate a recession. But growth remained positive thanks to an «unusually» warm winter. It remains the region that produced the best performance in the equity markets both in April and since the start of the year.

This month, only the Chinese equity market, and therefore most Asian markets, pushed stock indices down. However, China announced annualized growth close to 5%. It is spectacular in absolute terms, but weak compared to the rebounds recorded in Europe and the United States at the end of the confinements. This potentially frustrated investors, explaining the region's stock performance. It should be noted that Chinese growth is increasingly based on consumption, moving away from an economy based mainly on raw materials and real estate.

The US earnings season has started on a positive note. Bank results were much better than expected, despite the current crisis of confidence. However, in terms of outlook, the major US banks are clearly preparing for a slowdown in the economy and a continued tightening of credit and lending. More broadly, earnings growth is declining slightly in most regions and sectors, but overall for now sales and margins have surprised on the positive side.

At the equity level, Europe presented the best performance. It benefited from the good performance of defensive sectors such as healthcare, utilities and energy. Conversely, the United States was led by consumer staples and communication services. China, and all of Asia in general, has been affected by the poor performance of its technology sectors. At the bond level, bonds considered defensive ended the month at the top of the rankings. Convertible bonds ended the month in negative territory, impacted on the one hand by investors' appetite for defensive fixed income assets and on the other hand by relative weakness in growth companies in the fields of technology and healthcare.

CONFLICTING SMOKE SIGNALS

The rapid tightening of monetary policy has significantly increased the risks related to the stability of the financial system, as evidenced by the bank failures of recent weeks. Stability is an essential pillar of the functioning of financial markets. Investors therefore remain feverish despite drastically reduced volatility in equity indices. Bond volatility, on the other hand, remains at exceptionally high levels. Inflation looks set to settle at uncomfortable levels, and while interest rates aren't expected to rise much higher, it's conceivable that central banks will keep rates high until inflation returns to normal i.e. around the magic number of 2%. This return can be engineered in two ways: (1) indolent with positive but sluggish growth (2) brutal. Indeed, a severe recession would dispel fears linked to inflation. For financial markets, this could be a favorable catalyst, with bad news turning, in this case, into good news.

The difficulty today is that the economy is delivering contradictory signals. Certain macro-economic figures, in particular «hard data» (objective data from robust statistical approaches) provide a positive image of the economy's resilience. These data suggest that the coming slowdown could be moderate. The «soft data» (more subjective data based on various types

of measures) show that the mood of most players in the economy is pessimistic and that the situation is deteriorating rapidly. Therefore, how to position investment strategies with such contradictory signals? One way is to wait for the fog to dissipate and then react. This is the approach chosen by the European Central Bank. Its president confirmed recently «it is not possible to determine at this stage what will be the way forward (Editor's note for the ECB)». Another way is to position the investment strategies so that they best support both scenarios. All of our strategies are positioned defensively while maintaining real exposure to the main investment premiums.

In the current environment, one thing is clear: credit conditions will tighten. This is obviously a headwind for corporate earnings expectations, especially when combined with lower margins driven by cost pressure. However, bond and equity market valuations suggest this will be manageable. A moderate slowdown could allow earnings growth expectations to take a sideways trajectory over the next few months. In terms of credit premiums, in an environment providing more difficult access to loans with higher rates, it does not seem wise to expose oneself to substantial risks in the area of high yield.

For allocation, our «MFM World Equity Premium» indicator remained stable during the month, settling at historically low levels. This indicates that an allocation to bond investment premiums (credit and duration) remains valid. Expected bond yields again represent significant performance factors. In addition, they again provide protection against equity market corrections. In this context, we favor short-dated, high-quality sovereign bonds, as well as emerging market securities. In terms of equities, we maintain a defensive position by favoring quality assets and avoiding overly speculative exposures.

Overall, 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, especially in macroeconomic environments offering so little visibility.

PRECISE TIMING OF ECONOMIC MODELS

Economist Milton Friedman famously noted "that monetary actions affect economic conditions only after a lag that is both long and variable."

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MAIN DRIVERS SUMMARY

GLOBAL GROWTH

- Developed economies will slow, the main question is how strong it will be?
- Reason to be negative: Raising interest rates generate recession most of the time and as finance conditions will be tighter it increases the odds of a strong recession.
- Reason to be positive: 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

- A moderate slowdown could allow earnings growth forecasts to follow a sideways trajectory, despite the credit crunch.
- Margins are resilient, but the level of risk remains high, as they could contract if the slowdown is severe and unemployment rises significantly.
- So far, the earnings season has been a positive surprise to the experts.

INFLATION

- The anticipated slowdown in Europe and US push inflation down, recovery in China push inflation up.
- 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 governments have provided to stabilise the banks could allow the central 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, May 2023

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MONTHLY PERFORMANCE, 28TH APRIL

Equities Market (Local currency)	
Europe	4.15
United Kingdom	3.60
Switzerland	3.49
Japan	2.68
World (all countries)	1.60
United States	1.24
Emerging Markets	-0.70
Asia (ex-Japan)	-1.58
China	-5.03

Equities Sector (Local currency)	
Consumer Staples	3.74
Energy	3.57
Health Care	3.18
Telecommunication Services	3.14
Financials	2.89
Utilities	2.56
Real Estate	1.90
Industrials	0.54
Consumer Discretionary	0.06
Information Technologies	-0.16
Materials	-0.72

Fixed-Income (USD Hedged)	
Swiss Bond Index AAA-BBB (CHF)	0.84
Global Corporate Credit	0.81
Global Aggregate 5-7 Year	0.59
US Treasury Long Duration	0.52
Global Aggregate	0.51
Global Aggregate Long Duration	0.44
Global Aggregate 1-3 Year	0.38
Global Treasury	0.37
Global High-Yield	0.35
Emerging Market Hard Currency Aggregate	0.23
Global Inflation-Linked Bonds	0.08
Global Convertibles	-1.00

Others (USD)	
Commo Industrials (CBR)	-0.01
Hedge Funds	-0.03
Commo Global (ThomsonReuters)	-1.69

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