MFM
MIRANTE FUND MANAGEMENT

Market Overview

SEPTEMBER 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

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ARTIFICIAL INTELLIGENCE CAN'T DO ANYTHING WITHOUT DATA... NEITHER CAN CENTRAL BANKERS...

Central bankers have not yet delegated their monetary policy decisions to artificial intelligence. However, like the latter, they rely heavily on data to best calibrate their strategy in an ambivalent economic environment.

At the stock level, the enthusiasm generated by the moderation of inflation and the enthusiasm for artificial intelligence has not disappeared. It was offset by concerns about overall growth. In the United States, the month started with a bang. Fitch, one of the big three credit agencies, lowered the rating of US debt from AAA to AA+. Standard and Poor's had already done so in August 2011. This time, however, the reaction of the financial markets remained more measured than 11 years ago.

Investors remained focused on growth. It could have peaked, but employment and real estate remain in good shape, even if the first signs of a slowdown appeared at the end of the month. In Jackson Hole, Fed chief Jerome Powell reiterated that his monetary policy will remain «cautious» and will continue to be data-driven. In Europe, the usual growth engine remains at the dock. Indeed, Germany continues to show moribund growth. One of the reasons is probably its dependence on export markets, particularly China. As a result, Europe could enter a recession this quarter. Therefore, the performance of equities was more modest than other regions, with the exception of China. Chinese equity markets ended the month in positive territory despite many gray spots that are accumulating. Growth is sluggish, signs of deflation are tangible, youth unemployment is at worrying levels and liquidity problems persist in the real estate sector. Despite a timid response so far from the Chinese government, investors believe the CCP should be able to revive its economy.

In terms of sectors, energy is the only one to have ended the month in positive territory. Continued oil production cuts by Saudi Arabia and other members of the broader OPEC+ alliance supported the price of crude. Companies active in technology have been supported by the prospects generated by artificial intelligence. This fever has benefited NVIDIA (US, indisputable leader in the field) which has published stratospheric sales figures. Revenues in segments exposed to artificial intelligence have more than tripled...as has its market valuation since the start of the year. At the bottom of the pack, sectors with high exposure to interest rates such as utilities came under pressure.

At the bond level, investor sentiment was boosted by the prospect of an end to rate hike cycles. At the start of the month, interest rates continued to rise in both Europe and the United States. However, the fragility of the European economy then exerted downward pressure on long-term rates, while the resilience of the American economy supported the rise in its rates. In this environment, all bond assets with distant maturities or requiring risk appetite ended the month in negative territory. Only assets considered defensive or with very short maturities posted positive returns.

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BETWEEN OPTIMISM AND PESSIMISM!

Inflation will remain one of the major drivers of the financial markets for the coming quarters. For the past few months, it has slowed down in all regions for various reasons. However, as many economists predict, it will be the last step that will be the most difficult. The one that will make us fall back to the magic level of 2%. It is therefore likely that interest rates will remain high for a relatively long time, in particular with American and European central bankers who have the luxury of patience. If rates remain higher for a long time, the risk of an economic slowdown increases. Indeed, the impact of rates will be felt by consumers and businesses. If, for the time being, economies and societies seem able to sustain such a slowdown, this remains a delicate passage to negotiate.

Under these conditions, the sometimes contradictory economic data will exacerbate the outlook for optimists and pessimists. Price movements in turn will influence investors' sentiment and therefore their positioning. It will be more difficult to identify future scenarios in a rational way. In order to integrate the impact of good or bad surprises to come, it will be necessary to remain objective. Diversification remains a preferred tool. Indeed, historically in this type of environment, a diversified approach across all investment premiums delivers better risk-adjusted performance than strategies focusing on just one of these premiums in these periods of vast uncertainty.

In terms of allocation, our «MFM World Equity Premium» indicator remains at extremely low levels, close to the record of the 2008 crisis. This premium measures the expected excess return that investors require to hold equities rather than obligations. It indicates that it is important to have an exposure to bond investment premiums such as duration (sensitivity to interest rates) and credit (sensitivity to the risk of bankruptcy). Indeed, bonds once again offer attractive expected returns compared to equities. They also constitute protection in the event of a fall in the stock markets and a source of decorrelation with premium equities. In this context, we favor sovereign bonds with short maturities and high quality, as well as securities exposed to emerging markets. Regarding equities, we maintain a cautious stance with an emphasis on high quality assets, while avoiding overly speculative investments. Indeed, for the moment, most companies are resisting the rise in interest rates. But the worries of real estate companies and mid-sized banks in the US remind us that interest-rate sensitive companies remain at risk.

Although investors should expect strong market fluctuations, these sometimes allow them to benefit from opportunities offering a return sufficient to offset the associated risks. This is why we actively manage robust strategies capable of withstanding a wide range of scenarios, positive or negative, whether from a macroeconomic point of view or the performance of the main asset classes.

ACRONYM OF THE MONTH

BRICSAEEIASEAU

- The BRICS (a club including Brazil, Russia, India, China and South Africa) have invited six more countries to join their alliance: Argentina, Egypt, Ethiopia, Iran, Saudi Arabia and the United Arab Emirates.
- The enlarged group will represent 46.5% of the world's population and around 30% of global GDP. It will account for 51% of the world's fossil fuel production - coal, oil and gas - compared with 31% today.

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KEY MARKET DRIVERS

GLOBAL GROWTH

- Developed economies will slow down; the main question remains how deep these downturns will be.
- In the United States, the peak of economic growth has probably been reached. Employment remain strong even if the first signs of slowing down came on the latest set of data.
- In Europe, a recent drop in the Purchasing Managers' Index (PMI) suggests that we are approaching a recession.
- Chinese growth continues to be weaker than expected. The tools used by the government and the central bank to stimulate the economy remain timid for now. Risks of a systemic crisis emanating from China's real estate sector are real, but probability remains low.

CORPORATE EARNINGS

- The corporate earnings season was stronger than expected, although expectations were relatively modest.
- The profits expected by the companies, and by the analysts who follow them, remain relatively stable in this chaotic environment.
- In 2024, a large proportion of companies will refinance at significantly higher costs.

INFLATION

- Overall, inflation measures continue to improve significantly
- In Europe, it is coming down nicely. The recent rise in prices was mainly caused by the increase in energy costs.
- In the longer term, the forces pushing down inflation remain demographic growth and productivity gains.
- Could central bankers accept interest rates permanently above 2% to avoid destabilizing the economy?

INTEREST RATES

- The Fed and the European Central Bank continue to raise rates but are nearing the end of their respective hike cycles. The minutes of the last committee of the US central bank showed that it is increasingly divided on further rate hikes.
- A slowdown in the economy should mechanically dampen inflation... and thus reduce the pressure on interest rates.
- The robustness of economies encourages central banks to maintain their key rates at higher levels for longer.
- The QT (quantitative tightening) seems to create only weak pressure on long-term rates.

SOURCE: MFM, September 2023

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MONTHLY PERFORMANCE, 31 ST AUGUST 2023

Equities Market (Local currency)

Japan	-0.02
Switzerland	-1.71
United States	-1.74
World (all countries)	-1.76
United Kingdom	-2.53
Europe	-3.97
Emerging Markets	-4.68
Asia (ex-Japan)	-5.16
China	-8.30

Equities Sector (Local currency)

Energy	2.58
Health Care	-0.22
Telecommunication Services	-1.18
Information Technologies	-1.66
Industrials	-2.12
Consumer Discretionary	-2.19
Real Estate	-2.47
Consumer Staples	-2.59
Financials	-2.78
Materials	-3.15
Utilities	-4.83

Fixed-Income (USD Hedged)

Swiss Bond Index AAA-BBB (CHF)	0.62
Global Aggregate 1-3 Year	0.46
Global Aggregate 5-7 Year	0.11
Global Treasury	-0.05
Global Aggregate	-0.13
Global Inflation-Linked Bonds	-0.15
Global High-Yield	-0.17
Global Corporate Credit	-0.39
Global Aggregate Long Duration	-1.13
Emerging Market Hard Currency Aggregate	-1.39
US Treasury Long Duration	-2.79
Global Convertibles	-2.92

Others (USD)

Industrials (CBR)	-0.80
Global	-1.22

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