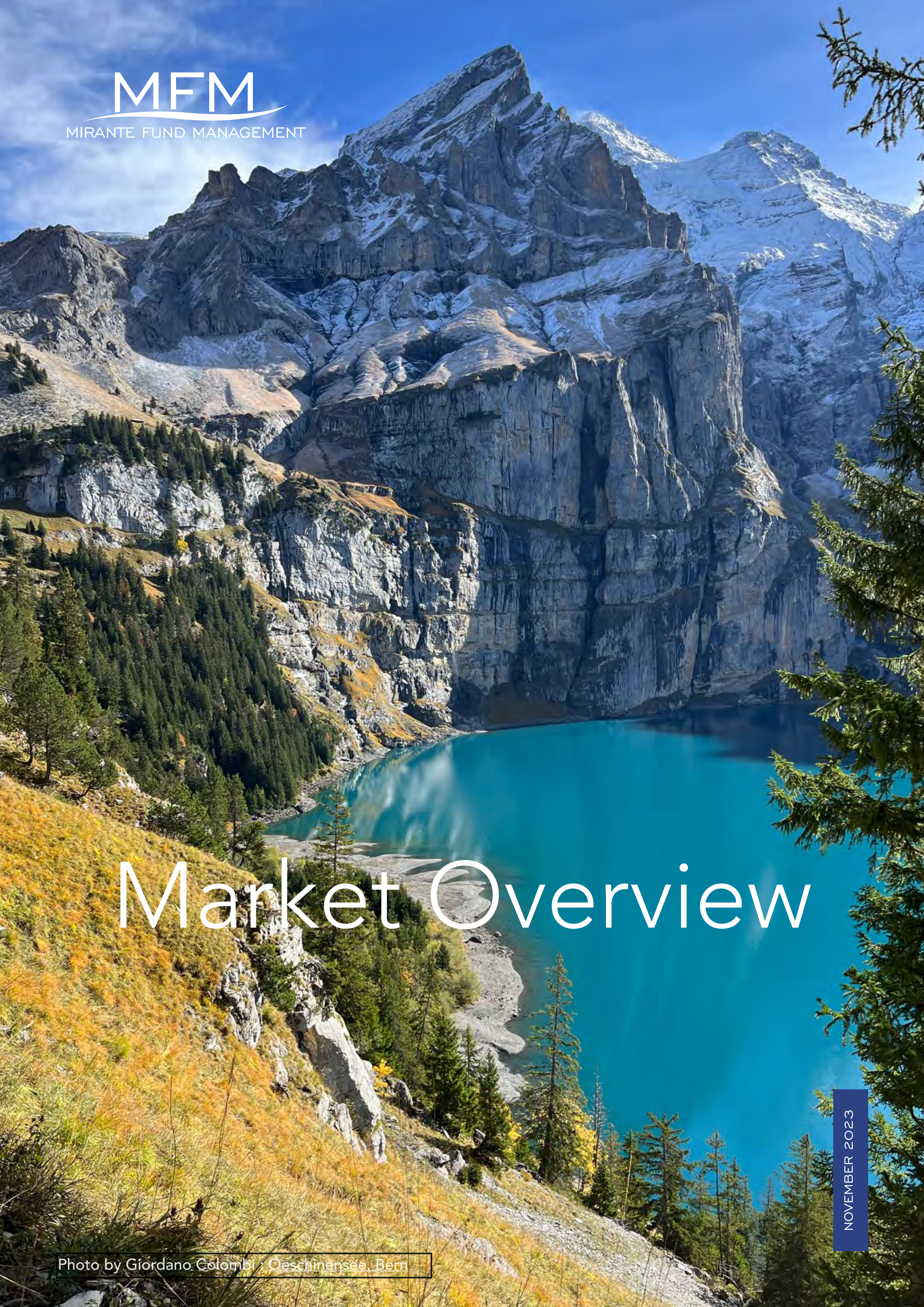


MFM

MIRANTE FUND MANAGEMENT

Market Overview

NOVEMBER 2023

Photo by Giordano Colombi : Oeschinensee, Bern

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

An entrepreneurial adventure

In this second part of the interview, Giuseppe (Joe) Mirante shares his reasons for launching his first defensive convertible bond fund on October 6, 2003. He advocates the importance of always challenging yourself in an ever-changing financial industry.

Click on the [Youtube]() link or scan the QR code

CROSSED TRAJECTORIES OF INTEREST RATES AND STOCKS

At the beginning of October, long-term bond yields continued their rise initiated in August. Investors seem confident that central banks will be able to keep interest rates high for a long time. During the month, the 10-year rate in the United States exceeded 5%. The consequences of these new leaps are double-edged. On the one hand, investors have done the work of central banks, which should allow the latter to calm their aggressive monetary policy. This seems elementary in Europe with an economy that is slowing significantly and inflation that is falling. In the United States, if inflation also seems to be subsiding, the strength of the economy may still justify some rate increases, even if this seems unlikely. On the other hand, the effect of the increase in long-term rates is immediately felt across all asset classes which posted negative performance in October.

All assets displaying sensitivity to long-term interest rates posted strongly negative performance. US long-term maturity bonds recorded the most disappointing returns. Only short-maturity or high-quality bonds were able to end the month in positive territory. Stocks remained heavily under pressure. The global stock market is down more than 10% since July. This correction is largely explained by the fact that the stock market lost the battle for confidence against rising interest rates. Indeed, investors believe that its impact will be felt, sooner or later, on the economy and company profits. Even the third-quarter earnings season that has just started has failed to stem the decline in stocks. The earnings aren't bad, but no one seems to care. Companies that display satisfactory results are ignored while poor performers are heavily punished. Pessimism among investors therefore seems to be well established. At the regional level, only Chinese stocks ended the month in positive territory. Beijing announced astonishing measures to revive the Chinese economy and Xi Jinping appointed a new finance minister. But even the most optimistic analysts did not expect measures of this magnitude. Conversely, Switzerland was the region with the weakest performance. This poor performance is explained by the strength of its currency and the mediocre performance of the healthcare sector, a significant weight in Swiss stock indices. At the sector level, only community services were able to remain in positive territory, mainly due to its defensive nature.

IMPACT OF "HIGH FOR A LONG TIME" ON BOND AND EQUITY

Although interest rates are not far from their peak, investors seem to have accepted a world in which rates are expected to remain permanently high. If the impact of the rise in rates is felt immediately on financial assets, in the real economy, it is more diffuse. In this new environment, consumers, businesses and governments will have to pay more to borrow. However, as the majority benefit from long-term rates stuck some time ago at particularly low levels, this increase is happening gradually. Despite this slowness, the impact will be tangible. Consumers will be forced to renew their mortgages, companies and governments will have to refinance. This will of course have major implications for consumer purchasing power, corporate investment and government budgets.

The impact on the global economy will be inevitable. There are three main types of scenarios that could occur.

(1) The first type of scenario assumes that inflation, followed by interest rates, has risen, because future growth in the world economy will be greater. Indeed, in the long term in theory, inflation, interest rates and growth are inextricably linked. However, the explanation which validates this scenario is more difficult to conceive. Some cite a potential increase in productivity thanks in particular to artificial intelligence. If this scenario comes true then growth would be robust with high interest rates which would make it possible to reduce state debts and which

could generate solid performance.

(2) The second type of scenario hypothesizes that high interest rates will have a strong impact and that the global economy will not be able to avoid a recession. This would push central banks to cut rates sharply and send the economy back into a low-growth environment. Aging global demographics combined with low productivity could support this scenario.

(3) The third type of scenario hypothesizes that the recent surge in inflation was generated by the colossal level of government debts. In this case, the global economy would find itself in an ambiguous situation combining high inflation and rates with sluggish growth. In this case, the increase in prices would help to reduce the real value of sovereign debts and thus reduce the pressure on rates. In this scenario, inflation would erode purchasing power and push investors to take more risk to compensate.

What are the impacts of these scenarios on investment strategies. In the short term, the most important is the increase in the risk-free rate. Investors today are significantly compensated by investing in short-maturity bonds. This has the effect of increasing the expected returns of all asset classes. As return and risk are sides of the same coin, risk will also be higher. The volatility of both the equity and bond markets should therefore be high. One way to protect yourself from or benefit from significant movements in asset prices remains diversification. The second impact is linked to allocation. With the meteoric rise in rates and the stagnation of corporate profits, our "MFM World Equity Premium" indicator remains at historically low levels. It says it is essential to have exposure to bond investment premiums such as duration (sensitivity to interest rates) and credit (sensitivity to bankruptcy risk).

In terms of bonds, if performance has been extremely disappointing over the last 18 months, the corollary is that current valuations are attractive. As previously mentioned, bonds are strategically relevant compared to stocks. Additionally, in the short term, the likelihood that interest rates will rise significantly from current levels is minimal. The same is true for the duration risk (i.e. that bonds lose their value due to the increase in interest rates). Conversely, if the scenario of a marked slowdown in the economy materializes, it is likely that bonds will benefit and partly offset the fall in stock prices. Bonds therefore offer an asymmetry in their risk/return profile which is essential for an investor seeking the benefits of diversification through exposure to different asset classes. In order to optimize this diversification, we favor quality investments through an active and diversified approach which should resist future uncertainty better than more speculative bets.

At the stock level, the current market correction is not necessarily synonymous with an imminent crisis. Indeed, economies are in a slowdown phase, but are not yet in recession. The 4.9% growth in US gross domestic product in the third quarter indicates that we are still far from there. It is also worth remembering that just a few months ago, practically all economists and other specialists had predicted that the United States would logically be in recession in the fall of 2023. This once again illustrates the extreme difficulty in making economic predictions. It is therefore necessary to take these predictions with a grain of salt when positioning investment strategies.

It is crucial to note that while interest rates have a major impact on stock valuations in the short term, the long-term trajectory of stock returns remains determined primarily by earnings growth. As a result, we continue to favor companies perceived as «quality», with strong balance sheets and offering excellent profit visibility. These actions could adequately behave in the three scenarios described above.

Overall, we actively manage robust strategies that can withstand a wide range of scenarios, whether from a macroeconomic perspective or from asset classes' behavior. These approaches should, likewise, allow us to benefit from future market fluctuations through opportunities offering sufficient returns to offset the associated risks

FACT OF THE MONTH

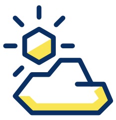
China is expected to overtake Japan as the world's biggest exporter of cars this year.

KEY MARKET DRIVERS

GLOBAL GROWTH

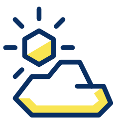
- American growth remains staggering at more than 4.9% in the third quarter. We are far from the recession predicted a few months ago. However, it is starting to slow down.
- In Europe, economic activity continues to decline, as does inflation. The consequence is probably that the European Central Bank has finished its cycle of increasing interest rates.
- The Chinese economy has shown some signs of improvement, particularly following announcements of economic stimulus from Beijing. The real estate sector, still under pressure, still represents 20% of the country's GDP.

COMPANY PROFITS



- The current earnings season shows encouraging signs.
- Companies that display satisfactory results are ignored while poor performers are heavily sanctioned.
- In 2024, a large proportion of companies will have to refinance at significantly higher costs. For the moment, some of them are still benefiting from the low rates they contracted a few years ago.

INFLATION



- Inflation data continues to improve across all regions.
- In the medium term, certain forces pushing inflation upwards could strengthen, notably the optimization of supply chains, decarbonization and defense.
- 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 economic balance?

INTEREST RATE

- Rates will likely stay "higher for longer." This could have a notable impact on highly indebted countries and companies.
- A slowdown in the economy should continue to mechanically dampen inflation... And thus reduce pressure on interest rates.
- Most central banks in developed countries have reached or are close to the end of their interest rate hike cycle.

SOURCE: MFM, November 2023

MONTHLY PERFORMANCE, 31 OCT. 2023

Equities Market (Local currency)

United States	-2.33
World (all countries)	-2.63
Japan	-3.08
Emerging Markets	-3.59
United Kingdom	-3.61
Asia (ex-Japan)	-3.65
Europe	-3.73
China	-4.21
Switzerland	-5.10

Equities Sector (Local currency)

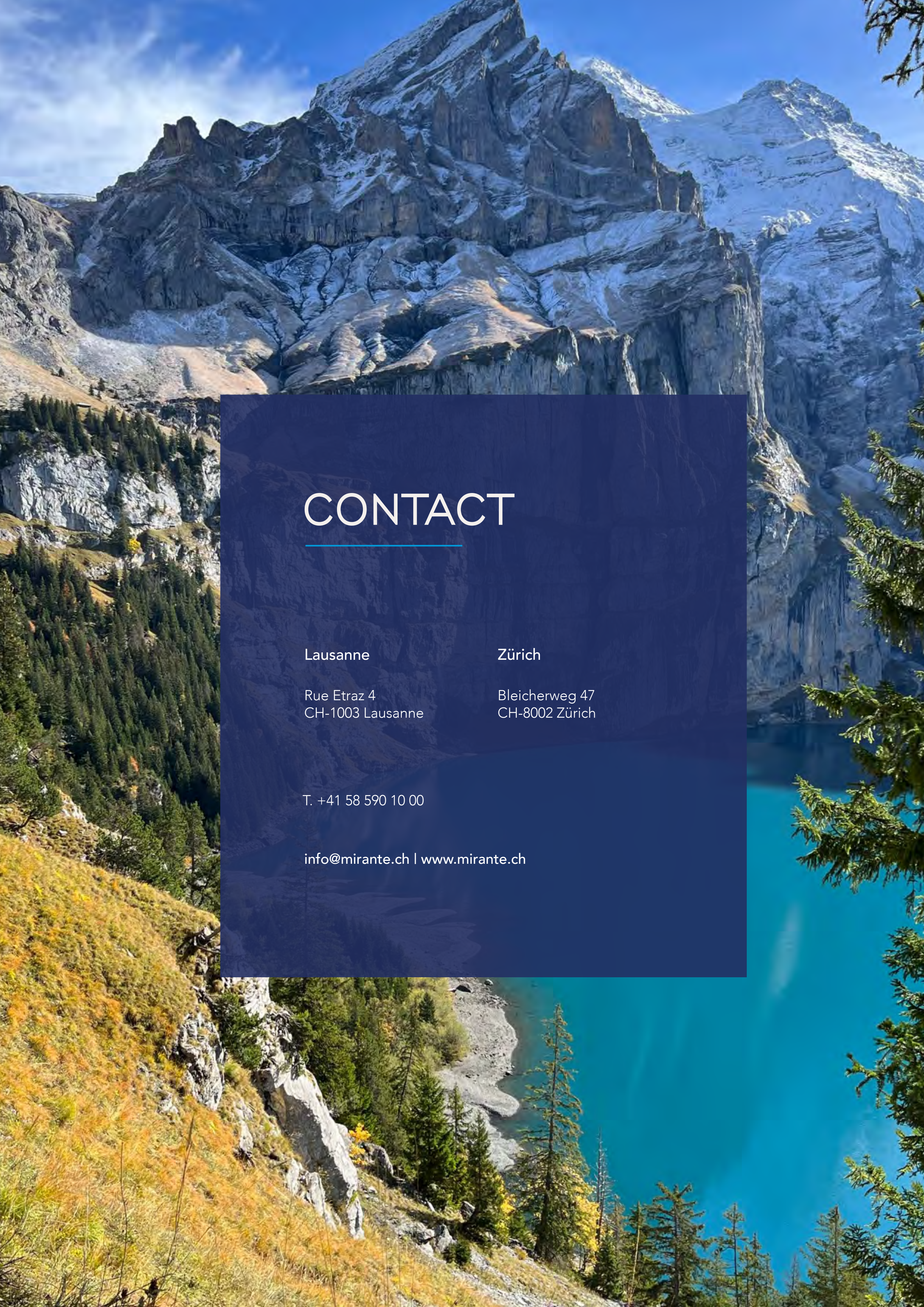
Utilities	0.83
Information Technologies	-0.73
Consumer Staples	-1.46
Telecommunication Services	-1.90
Materials	-2.69
Financials	-3.07
Real Estate	-3.20
Industrials	-3.70
Energy	-3.87
Health Care	-4.01
Consumer Discretionary	-4.50

Fixed-Income (USD Hedged)

Swiss Bond Index AAA-BBB (CHF)	0.57
Global Aggregate 1-3 Year	0.41
Global Inflation-Linked Bonds	0.08
Global Aggregate 5-7 Year	-0.26
Global Treasury	-0.56
Global Aggregate	-0.71
Global High-Yield	-0.88
Global Corporate Credit	-1.04
Emerging Market Hard Currency Aggregate	-1.61
Global Aggregate Long Duration	-2.53
Global Convertibles	-3.08
US Treasury Long Duration	-4.93

Others (USD)

Global	-0.21
Industrials (CBR)	-2.87



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