MIRANTE FUND MANAGEMENT

Market Overview

MARCH 2024

NEWS
March 2024

MFM
MIRANTE FUND MANAGEMENT

VIDEO
What is the added value with our active converti-ble bond strategies?

In this new video clip, Giuseppe Mirante (founder and CEO) presents the added value that MFM has been able to offer its clients with active convertible bond strategies. This analysis is based on a track record of data collected over more than 20 years.

Find the video here.

AWARDS
Recognised at the Swiss External Asset Managers ceremony.

MFM stood out as a major player in independent wealth manage-ment in Switzerland by winning 3 awards at the WealthBriefing Swiss EAM Awards 2024 cere-mony.

Find the article here.

TECHNOLOGY
New platform

Significant improvements have been made to our MFM fund platform, offering increased accessibility and advanced visualization tools for all our strategies.

Find here all our investment strategies and their associated sections: Overview, Analysis, Factsheet, and Documents.

NEWSLETTER written by Frank Crittin

Frank Crittin is responsible for all investments as well as macroeconomic views at MFM. He has over 16 years of experience in the fund management sector. He holds a PhD in Mathematics from the École polytechnique fédérale de Lausanne.

OPTIMISMS TAKE PRECEDENCE OVER PESSIMISTS

During the month of February, equity investors confirmed their optimism. Indeed, the American, European and Japanese markets all broke records. Chinese stocks are far from breaking records, but they have nevertheless rebounded strongly. They posted their strongest outperformance compared to other regions since July. This good performance of Chinese stock markets came after the authorities announced a series of energetic measures to support the markets and the economy. The Chinese markets have, as usual, taken most Asian markets in their wake. The explanation for this optimism towards stocks is mainly explained by rather positive economic growth and the increase in corporate profits. Indeed, the earnings season has been positive and continues to demonstrate solid margins despite interest rates and inflation. Growth companies continue to highlight their potential. One positive is that the strength of the equity market has extended across all market caps and sectors.

However, it should be noted that areas of market euphoria focus on secular themes such as artificial intelligence and experimental treatments for obesity. The results from Nvidia (US, semiconductor) have been astonishing. Its data center revenue exploded more than 400% to $18.4 billion. The main reason is the investments of cloud players in GPUs (Graphical Processing Units) which are chips dedicated to generative artificial intelligence. In the process, its market capitalization exceeded that of Google and Amazon.

In terms of interest rates, it is now clear that the number of rates cuts this year will be significantly lower than macroeconomists forecasted at the start of the year. This situation led to a surprising reaction from the markets. Indeed, higher rates for longer could have had a negative impact on companies' prospects. This was not the case, as profit growth took precedence over expectations of future rate cuts. Interest rates have increased slightly, particularly in the United States, without causing panic. This suggests that investors have become accustomed to the idea that rate cuts would come later and are likely to be smaller than initially expected. In the bond space, high-yield securities and convertible bonds have naturally benefited from investors' increased interest in risk. Furthermore, new bond issues maintained their positive momentum, particularly in the United States, where they are on track to set new records.

MACROECONOMIC FUNDAMENTALS TRENDING POSITIVELY

At the macroeconomic level, global economic growth is expected to remain the main driver of financial assets. The anticipation of accommodative monetary policies should stimulate the economy. The United States continues to post strong consumption and job markets, seemingly impervious to interest rate fluctuations. On the other hand, economic activity in Europe remains anaemic. China continues to face economic uncertainty, particularly in its still-pressured real estate sector. The International Monetary Fund has, despite the Chinese slowdown, revised upwards its projections for global growth. The recent corporate earnings season confirmed that corporate profits are improving. Companies continue to see their margins increase thanks to cost-cutting measures, mainly through job cuts. This led to a positive adjustment to earnings forecasts. Inflation, in Europe and the US, seems to be able to stabilize around 2%, despite the risks linked to the optimization of supply chains and geopolitical tensions. The confidence of central banks in controlling inflation suggests first rates cuts in the months to come, from June in Europe.

From the optimists' point of view, the good performance of financial markets since the start of the year indicates that investors have already integrated the elements listed above into their positive scenario: an economy that continues to defy gravity combined with declines of future interest rates and companies in excellent shape. Even geopolitical tensions, which last year pushed many investors to favor cash, can be interpreted as something favorable. Indeed, the large volumes of available cash could support the performance of many asset classes. On the other hand, pessimists believe that with the challenges and uncertainties affecting global economies, it is perilous to imagine the current boom in markets continuing. The consequences of regional conflicts, geopolitical tensions and upcoming elections in more than seventy countries are difficult to predict. Finally, the current euphoria surrounding generative artificial intelligence seems exaggerated to them. While it is undeniable that it will transform our societies, it remains an emerging technology both in terms of applications and business models. The hypothesis that it could boost productivity on a global scale remains, at this stage, speculative.

WHAT ARE THE IMPACTS FOR OUR INVESTMENT STRATEGIES?

In terms of allocation, the main challenge is to ensure that it is constantly in line with the objectives set for our various strategies. The strategies are rebalanced regularly so that the asset allocation maintains the desired level of risk. This generates two major benefits: firstly, by applying a systematic approach, we reduce the risks associated with market timing for rebalancing decisions. Second, this approach requires regularly taking profits in assets that have outperformed others (which therefore provide lower expected returns) and investing in assets whose value has declined relative to others (which therefore provide lower expected returns).

In terms of portfolio construction, it is not the absolute valuation that is important, but rather the relative valuation compared to other asset classes. Our MFM Equity Risk Premium indicator is at its historic low point. These premium measures the excess return expected by investors for holding stocks rather than bonds which are considered less risky. This highlights the importance of being exposed to bond-related investment premiums such as duration (interest rate sensitivity, also known as «bond premium») and credit (bankruptcy risk sensitivity, also known as «credit premium»). This also results in an increase in the expected return of diversified approaches combining bonds and stocks, while making these strategies less risky. Indeed, bonds should perform better if the pessimists' scenarios are confirmed, while stocks could continue their march forward if the optimists are right.

In terms of asset classes, stocks currently exhibit a high valuation, particularly in the United States. However, stock valuation is not a reliable indicator of short-term performance. In fact, these two quantities are completely uncorrelated. However, by increasing the time horizon, it becomes a more relevant indicator for predicting future returns. Faced with strong movements in the stock markets, we remain convinced that a bias for quality assets with little debt and good diversification should allow us to benefit from the good performance of the stock markets and withstand probable market corrections. Regarding bond investments, if economic growth were to slow significantly, credit spreads, which are currently extremely low, could widen. We therefore opt for quality bonds to best manage credit risk by combining them with defensive sovereign bonds, as well as securities exposed to emerging markets which offer the most attractive expected returns.

Overall, structured portfolio construction and diversification should allow strategies to face different scenarios, whether optimistic or pessimistic, by allowing, in periods of turbulence, to benefit from interesting investment opportunities.

QUOTE OF THE MONTH - DATA IS GOLD

" *This is the single most important moment in the history of the technology industry. There are a thousand AI models right now, that will all be obsolete in 12 months because there are hundreds of thousands of models coming, but the gold is the data. We have the data. The entire AI revolution is built on this foundation of data, and it is now deeply integrated into all our apps into our entire platform*

Marc Benioff, CEO de Salesforce, 2024

MAIN MARKET DRIVERS

GLOBAL GROWTH

- Growth will likely be the determining factor in the performance of financial assets in the coming quarters. Monetary policy is expected to be less restrictive this year, which is good news for the economy.
- The United States remains in great shape, particularly consumption and employment which seem little affected by interest rates.
- Europe narrowly avoided falling into recession, but economic activity remains shaky.
- Despite the upheavals caused by the numerous economic stimuli and monetary, the Chinese economy remains uncertain. The real estate sector, still under pressure, represents more than 20% of the country's GDP.

CORPORATE PROFITS

- Q4 results point to stronger profit growth and improved margins as many companies cut spending, mainly by cutting jobs.
- Most analysts are raising their targets as the earnings outlook continues to improve.

INFLATION

- Central bankers seem increasingly confident that inflation should return to satisfactory levels of around 2% in the coming quarters.
- In the medium term, certain forces pushing inflation upwards are likely to strengthen, including the optimization of supply chains, decarbonization and geopolitical unrest. These could increase energy prices.
- In the longer term, the forces pushing down inflation remain demographic growth and productivity gains.

INTEREST RATE

- With central bankers' confidence in inflation, the start of rate cuts could arrive in the coming months. In Europe, a rate cut is expected in June.
- Two camps clash over timing. The "dovish" think that central banks should lower their rates promptly, in order to avoid a significant impact on the economy. On the contrary, the "hawkish" argue that cutting rates too quickly could reignite inflation.
- Interest rates remain high in absolute terms. This could have a notable impact on highly indebted countries and companies.

SOURCE: MFM, March 2024

MIRANTE FUND MANAGEMENT

MONTHLY PERFORMANCE, 29TH FEBRUARY 2024

Equities Market (Local currency)

China	8.59
Asia (ex-Japan)	5.84
Japan	5.46
United States	5.32
Emerging Markets	5.10
World (all countries)	4.61
Europe	1.56
United Kingdom	0.70
Switzerland	0.39

Equities Sector (Local currency)

Consumer Discretionary	7.96
Industrials	6.32
Information Technologies	6.29
Telecommunication Services	4.77
Financials	4.19
Health Care	2.63
Materials	2.59
Real Estate	2.22
Energy	2.00
Consumer Staples	0.91
Utilities	-0.79

Fixed-Income (USD Hedged)

Global High-Yield	0.90
Global Convertibles	0.69
Swiss Bond Index AAA-BBB (CHF)	0.30
Emerging Market Hard Currency Aggregate	0.25
Global Aggregate 1-3 Year	-0.10
Global Treasury	-0.49
Global Aggregate	-0.69
Global Inflation-Linked Bonds	-0.74
Global Aggregate 5-7 Year	-0.86
Global Aggregate Long Duration	-0.87
Global Corporate Credit	-1.10
US Treasury Long Duration	-2.28

Others (USD)

Industrials (CBR)	0.89
Global	-1.89

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