Market Overview

APRIL 2024

NEWS
April 2024

MFM
MIRANTE FUND MANAGEMENT

GALDERMA
EST. 1981

IPO
Introduction to the swiss stock exchange

The largest IPO of the last twenty years in Switzerland was a success. Skincare company Galderma Group AG soared 21% on its first day of trading, valuing it at more than 15 billion Swiss francs. This operation provided European capital markets with a much-needed success compared to the bustling activity in this area in the United States.

PORTRAIT
Frank Crittin

At MFM, Frank Crittin is a key figure as he contributes to shaping a culture of collaboration and innovation that defines the firm's identity.

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.

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A BUSY FIRST QUARTER OF OPTIMISM

March confirmed a robust start to the year for growth assets. Global stocks returned over 7.8% in USD terms, bringing returns close to 20% for the past 12 months. This spectacular performance was generated as expectations of interest rate cuts from US and European central banks dwindled. Despite higher rates for longer, equity markets were driven by companies benefiting or which could benefit from the rise of artificial intelligence. In March, more cyclical sectors such as energy or materials as well as smaller market capitalizations also contributed to the increase. This rebound allowed European indices to match the performance of American markets during the first three months. Regionally, Japan was one of the best performing markets of the quarter although its central bank began to normalize its monetary policy. This first interest rate increase in 17 years is historic. For several decades, Japan has distinguished itself by an unconventional monetary policy combining negative interest rates with massive asset purchases. Despite this change in direction, the general stance of monetary policy should remain accommodative.

Across the quarter, symmetrically, the performance of the bond market suffered from the fact that central banks could delay interest rate reductions until at least the middle of the year. Global bond indices fell 2.1% over the quarter. The "fault" is an extremely robust US economy which is holding back the need to cut rates quickly. In March, however, US inflation showed signs of slowing, allowing the entire bond asset class to end the month in positive territory.

In Europe, markets remained confident in the imminence of the reduction cycle aided by inflation figures which continue to slow. This was corroborated by the Swiss central bank. In the middle of the month, it created a surprise by reducing its rates by 0.25% to 1.50%, becoming the first central bank to do so.

At the credit level, in the first quarter, high yield outperformed quality due to its lower sensitivity to rates. Credit spreads continued to tighten across most sectors and geographies, benefiting from the risk appetite that prevailed during the quarter. The compression of credit spreads has practically offset the duration risk, confirming the attractiveness of riskier assets.

MACROECONOMIC OUTLOOK: FUNDAMENTALS WELL ORIENTED

In the United States, the economy continues to demonstrate its strength. Recent macroeconomic data indicates that although the latter is slowing (coming closer to its average growth rate), it remains robust. There are no signs of an imminent recession. Employment and wage growth clearly support consumer spending, which remains the driving force of the American economy. China showed encouraging signs in March. Chinese authorities have set a 2024 growth target of 5%. This may seem ambitious in the context of a persistent real estate crisis and the timidity of the authorities to offer significant budgetary or monetary support. However, growth should remain clearly positive in absolute terms for the months to come. Between these two blocks, Europe is experiencing almost zero growth. Currently, investors remain optimistic that the period of stagnation could be coming to an end.

At the company level, robust growth in the United States and China combined with an expected drop in interest rates in Europe and the United States is generating a profoundly supportive environment. Analysts also remain particularly positive for the next twelve months. They predict that, for all global stocks, average earnings will increase by more than 8.5%. For comparison, they expect growth of around 12% for US companies. The upcoming release of first quarter results will tell us more about the companies' outlook. The growth and especially the solidity of the margins of large technology companies should be a determining factor. Another tangible sign of corporate confidence is the dramatic increase in M&A deals and IPOs, the majority of which have been very well received by investors.

In the United States, with decreasing inflation and a robust economy, the trajectory of rates seems clear, even

if the final stretch to calm inflation could prove difficult. However, even if the Fed is not under pressure to cut rates, waiting too long could cause profound damage to the economy and the job market. It is a different story in China and Europe, which will be forced to relax their monetary policies, because economic growth is sluggish in China and non-existent in Europe. The European Central Bank is sending relatively clear signals that it should follow the lead of the Swiss National Bank in cutting rates. In China, rates are already at historic lows as the central bank aims to boost consumer confidence weighed down by the housing crisis.

WHAT ARE THE IMPACTS FOR OUR INVESTMENT STRATEGIES?

Interest rates which are expected to fall soon in the United States and Europe, coupled with a diminishing risk of recession and weakening inflation provide positive bases for most investment premiums. Even if the performance of bonds remains disappointing from the start of the year, these assets should benefit from future rate cuts. On the equity side, investors' impetuosity towards American growth assets generated strong performance. One of the consequences is the difference in valuation between American stocks and the rest of the world. This gap has rarely been so significant: more than two standard deviations separate the main valuation ratios. Even though the composition of the indices is radically different in terms of sector allocation, this discount is extreme. This generates consequences for the positioning of investment strategies according to their time horizon. In the short term, valuations have little influence on future performance. Indeed, prices can remain expensive over extended periods. However, to maintain investor optimism, companies find themselves forced to deliver robust earnings growth to support current valuations. Otherwise, it is highly likely to see profit taking by investors which could turn into a correction in the American and global equity markets. Since these events are impossible to «time», good diversification, investments in quality assets and systematic rebalancing should make it possible to withstand this type of correction. In the longer term, the difference in valuation between the US and the rest of the world should fade. This allows non-US equities to offer higher expected returns, and this has translated in recent weeks into significant capital inflows into European equity strategies to the detriment of the United States.

When it comes to bond investments, credit spreads are extremely low today as default rates remain at low levels and yields are attractive in absolute terms. As the yield spreads between high yield and sovereign bonds are very small, we prefer to opt for quality bonds in our strategies by combining defensive sovereign bonds with securities exposed to emerging markets which offer highly attractive expected returns. Bankruptcy rates remain at low levels and are further compressing spreads between investment-grade and high-yield corporate bonds. The absolute level of yield in the sub-investment grade space remains attractive, but the yield spread relative to Treasuries is historically low.

The strong performance of equity markets since the start of the year and the likely trajectory of interest rates has a more significant impact on asset allocation. Indeed, the compensation offered to bond investors compared to equity investors continues to increase. Our MFM Equity Risk Premium indicator remains at historically low levels. It measures the excess return expected by investors for holding stocks rather than low risks bonds. 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.

Overall, structured portfolio construction and controlled diversification makes it possible to build resilient strategies which allow you to benefit from interesting opportunities in periods of turbulence. In the longer term, this type of strategy also makes it possible to maintain controlled exposure to the main investment premiums despite short-term erratic movements in the financial markets.

MAIN MARKET DRIVERS

GLOBAL GROWTH

- No signs of an imminent recession
- In the United States, employment and wages support consumption, which remains the main engine of the American economy.
- Europe narrowly avoided falling into a recession, but economic activity in the region remains weak and uncertain.
- China is showing encouraging signs, but the 5% target set by the authorities seems ambitious.

CORPORATE PROFITS

- Earnings growth estimates continue to be revised upwards due to likely lower interest rates and a robust global economy
- Corporate earnings per share are expected to increase by more than 8.5% over the next twelve months. For comparison, analysts expect growth of around 12% for American companies.
- The primary market is waking up and the new IPOs are well received by the market.

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

- In terms of rates, the trajectory of interest rates seems clear, even if the final stretch to eliminate inflation could prove difficult and therefore postpone the first rate cuts.
- It's a different story in China and Europe, which will be forced to relax their monetary policy because economic growth is weak in China and non-existent in Europe.
- 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 revive or maintain inflation.

SOURCE: MFM, April 2024

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MONTHLY PERFORMANCE, 28TH MARCH 2024

Equities Market (Local currency)

United Kingdom	4.61
Japan	4.17
Europe	3.74
Switzerland	3.57
World (all countries)	3.39
Asia (ex-Japan)	3.18
United States	3.15
Emerging Markets	3.02
China	1.05

Equities Sector (Local currency)

Energy	9.16
Materials	6.74
Utilities	5.87
Financials	5.18
Industrials	4.19
Telecommunication Services	3.69
Consumer Staples	2.63
Health Care	2.60
Information Technologies	1.76
Real Estate	1.53
Consumer Discretionary	1.03

Fixed-Income (USD Hedged)

Global Convertibles	1.80
Emerging Market Hard Currency Aggregate	1.61
Global High-Yield	1.57
Global Aggregate Long Duration	1.33
Global Corporate Credit	1.26
US Treasury Long Duration	1.23
Global Aggregate 5-7 Year	0.92
Global Aggregate	0.90
Global Inflation-Linked Bonds	0.88
Global Treasury	0.75
Swiss Bond Index AAA-BBB (CHF)	0.74
Global Aggregate 1-3 Year	0.50

Others (USD)

Global	2.90
Industrials (CBR)	-0.65

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