MARKET OVERVIEW

MAY 2024

MFM
MIRANTE FUND MANAGEMENT

NEWS MAY 2024

OFFICE MOVE

In the Boxes

This month, we are actively preparing for the relocation of our offices in Lausanne. We look forward to welcoming you to our new work environment, closer to the lake.

CHECKMATE

Lunch breaks are sometimes punctuated by chess games.

A shout out to Giordano Colombi and Christophe Beney, quantitative analysts who stand out for their mastery of the game and more generally for their passion for strategy building. Feel free to challenge them at the office!

QUOTE OF THE MONTH

"The whole problem with the world is that fools and fanatics are always so certain of themselves, and wiser people so full of doubts."

Bertrand Russell, Bertrand Arthur William Russell 1872-1970,
considered as one of the most important philosophers of the 20th century

In this section, we introduce one of the experts with whom we collaborate actively for the benefit of our clients.

OUR NETWORK OF PROFESSIONALS

Together, we are stronger!

Suzi Guignard and Marco Salmina, specialists in financial planning, retirement, and succession, are at the helm of IMPACT FINANCIAL ENGINEERING.

Contact us for an introduction to serenely plan the important financial steps of your life.

VIDEO

What added value do convertible bonds offer?

Giuseppe Mirante, founder and CEO, describes 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.

MACRO: DATA DRIVES

Since the start of the year, investors have anticipated an upcoming drop in interest rates both in the United States and in Europe. However, in recent weeks, samples of data indicate that US inflation is no longer falling: prices remain stubbornly high.

Written by Frank Crittin,
CIO of MFM

As the US central bank's policy is based solely on data, particularly those regarding inflation and strong employment, the likelihood of the central bank cutting rates has greatly diminished. Jerome Powell, the president of the Fed, has, moreover, confirmed that the fight against inflation is proving to be longer than expected and that, therefore, rate cuts are not to be expected in immediate future. In January 2024, investors expected more than 1.5% interest rate decline in the United States over the year. Now they are anticipating a significantly smaller reduction, if any at all. The prospect of higher rates for longer has generated significant profit-taking on stocks.

These profit takings were, as usual, focused on the assets that have shown the best performance since the start of the year. Growth stocks have been a prime target following the spectacular first quarter rally. The earnings season that recently began demonstrates, once again, the robustness of companies, particularly those that stand to benefit from the immense spending plans announced by all sectors of activity to develop services linked to artificial intelligence. However, these optimistic outlooks did not generate positive reactions at quotation levels, with investors remaining focused on taking profits.

As a result, equity indices posted mostly negative performances. Only sectors considered defensive managed to do well, notably utilities and energy which ended the month in positive territory. Growth sectors, such as technology, consumer discretionary and healthcare, have been under significant pressure. Higher interest rates for longer periods impact discount rates and therefore reduce the future value of their cash flows. At the regional level, China has benefited from the first signs of economic recovery. It brought in its wake Asia and, more broadly, all emerging countries which all posted positive performances over the month. The United States, for once, finished at the bottom of the pack in terms of performance.

In this turbulent environment, bond yields increased, implying negative performances for the entire asset class during the month. Unsurprisingly, long-dated US bonds performed the worst. Short-term bonds and high-yield credit, which are not very sensitive to interest rate fluctuations, posted less disappointing results.

THE GRUYÈRE PARADOX!

The spark that generated the April correction was that inflation was taking hold in the United States.

This does not seem to be the case in Europe. The latest data suggests the continuation of the decrease in consumer prices. Overall, inflation in the euro zone has risen from more than 10% to a level close to the central bank's target in the space of a year and a half.

Globally, most of the fundamentals remain positively oriented. Overall growth remains robust. The United States continues to surprise. Recent macroeconomic data indicates that the American economy is experiencing an acceleration of its activity. In addition, in China, gross domestic product recorded an increase of 5.3% in the first quarter compared to the same period the previous year, thus surpassing the forecasts of the majority of experts. The government has set a target of "around" 5% for this year. However, the observed inflation rate turned out to be lower than initial estimates, raising concerns of a deflation risk for the world's second-largest economy. At the same time, the economic situation in Europe is no longer deteriorating. Investors interpret this as a positive signal that the worst of the stagnation is likely over.

The solidity of the global economy, driven by the performance of the United States, creates a singularity approaching the Gruyère paradox[1].

Indeed,

- Robust growth is good news for corporate profits. This seems to be confirmed by the good start to the earnings season. Indeed, most companies are posting encouraging results and remain optimistic for the quarters to come.

- Robust growth is bad news for corporate profits. That means fewer interest rate cuts this year. This has an impact on company valuations by reducing the anticipated value of their future results.

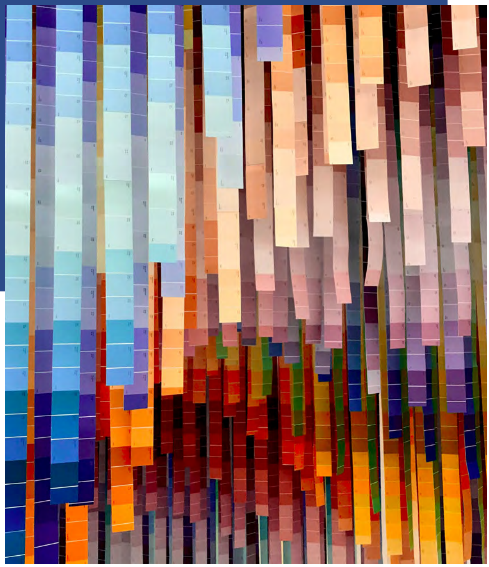
- Investors therefore find themselves faced with a paradox. Stocks rise when the economy is strong; but if the economy is robust then rates remain high and therefore stocks fall… if stocks rise then stocks fall.

In China, the problem is the opposite. Indeed, the collapse of China's real estate market has contributed to falling prices in many related sectors of the economy. As a result, central banks in Europe and China are more inclined to ease policy rates as economic growth remains disappointing.

[1]The Gruyère paradox: The more cheese there is, the more holes there are; but the more holes there are, the less cheese there is; so the more cheese, the less cheese.

TIMING OR ALLOCATION?

The prospect of higher rates for longer in the United States combined with major geopolitical uncertainty is weighing on investor optimism. A relevant question is whether this is a temporary correction or a prelude to a major crisis?



The answer depends on many factors and remains extremely complex to decide. The resilience of the global economy, combined with the prospect of rate cuts in the second part of the year, paints a relataively positive scenario for financial markets. The stability and liquidity of the financial system as a whole do not point to an imminent major crisis. Given the uncertainties surrounding inflation in the United States, geopolitical risks and the numerous upcoming elections, we likely anticipate high volatility in the markets. In addition, certain equity markets still display high valuations and could therefore be subject to further profit-taking. If further corrections are likely, predicting their timing and extent remains a pipe dream. Furthermore, as Peter Lynch mentioned, the costs associated with this timing generally exceed the benefits.

In this current economic context, it is essential to preserve a highly diversified asset allocation. Fortunately, investors today have a greater variety of instruments at their disposal to diversify their portfolios and increase their resilience to market fluctuations. Indeed, bonds that provide more attractive returns should make it possible to support portfolios in the event of an unfavorable shock and allow the allocation to be rebalanced towards assets offering more attractive expected returns.

On the equity market, the euro zone could offer pleasant surprises thanks to a rebound in economic activity and the pronounced differences in valuation to their American counterparts. Conversely, US securities are likely to generate more modest returns in the medium and long term, given their high valuations in certain parts of the market. Finally, emerging markets, particularly China and India, are expected to maintain their status as geographies with the highest expected returns for equity investments, due to the strength of their economic environment.

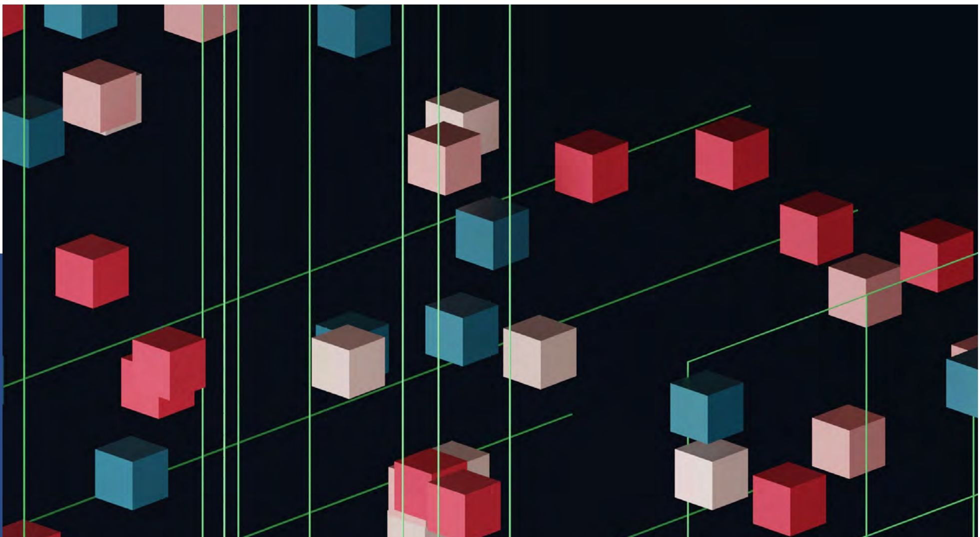
At the bond level, even if the performance of bonds remains disappointing since the start of the year, these assets should benefit from future rate cuts. As the yield spreads between high yield and sovereign bonds are particularly small, we prefer to opt for quality bonds in our strategies by combining defensive sovereign bonds with securities exposed to emerging markets which offer attractive expected returns.

When it comes to asset allocation, the difference in returns between bond investments and equity investments continues to narrow. Our MFM Equity Risk Premium indicator shows historically low levels. This 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 "bond 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 enables building resilient strategies which allow the investor to benefit from interesting opportunities in periods of turbulence.

Legendary investor Peter Lynch (former manager of the Fidelity - Magellan Fund) reportedly observed sometime back in the 1990s: "Far more money has been lost by investors in preparing for corrections, or anticipating corrections, than has been lost in the corrections themselves."

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

Over the long term, overall growth, corporate profit growth, inflation and interest rates are the four main drivers of financial markets.

GLOBAL GROWTH

- At the global level no recession in the short term
- United States: consumption and employment remain robust
- Europe: return to growth
- China: first signs of recovery

CORPORATE PROFITS

- Positive start to earnings season
- Artificial intelligence remains one of the main growth drivers
- Mergers and acquisitions are back

INFLATION

- US: it seems to be settling at a level too high for the Fed
- Europe: modest but continued decline in the inflation rate
- China: the main risk is that of deflation (reduced growth and low inflation)

INTEREST RATE

- Overall downward trajectory of rates, but the timing is tricky
- The United States is in no hurry, but China and Europe should act
- Central banks policies are directly linked to macroeconomic data

RADIANT WEATHER VARIABLE WEATHER STORMY WEATHER

MONTHLY PERFORMANCE

30 APRIL 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

OTHERS (USD)

Global	2,90
Industrials (CBR)	-0,65

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

MEET THE TEAM

Frank Crittin

Chief Investment Officer

With the investment team, we manage all MFM strategies integrating both quantitative and qualitative approaches.

I am fortunate to be surrounded by fantastic colleagues on whom I can rely.

I'm a probabilistic optimist. I'd rather have a glass 50% full than 50% empty.

Sébastien Bertoud

Wealth Manager

I am often described as "the calm and reassuring strength" of the team.

Senior wealth manager, I have been managing my clients' financial lives for over 25 years.

The structure of MFM enables me to offer personalized solutions tailored to their specific needs.

As a member of the management committee, I am in charge of several business development projects.

MFM
MIRANTE FUND MANAGEMENT

OUR UNIQUE SERVICES

When institutional asset management meets bespoke wealth management.

12 INVESTMENT STRATEGIES

Benefit from institutional-quality strategies combining qualitative and quantitative approaches.

WEALTH MANAGEMENT

We are here to manage your wealth and provide you with active advice.

MORTGAGE

We find the best financing solution for your real-estate project.

PLANNING

We guide you to serene retirement and estate succession.

FORESIGHT

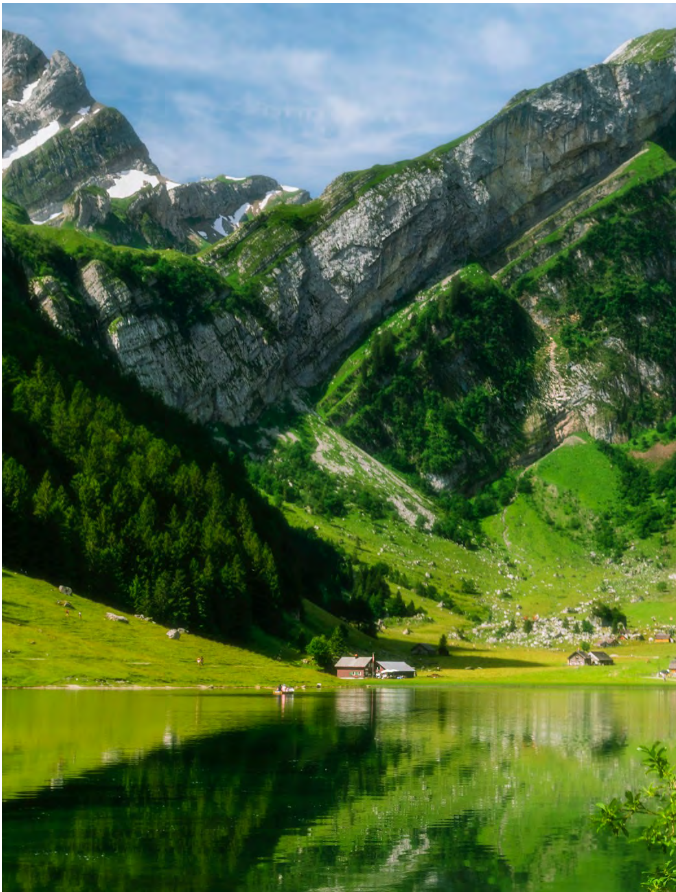
We set up your Swiss pension plan for the 2nd and 3rd pillars (1E, libre-passage and 3A)

FAMILY OFFICE

We collaborate with a network of professionals in the legal, tax, insurance and cryptocurrency fields.

ACCESS TO DIGITAL PLATFORMS

Benefit from the portfolio aggregator My MFM.



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