MARKET OVERVIEW

SEPTEMBER 2024

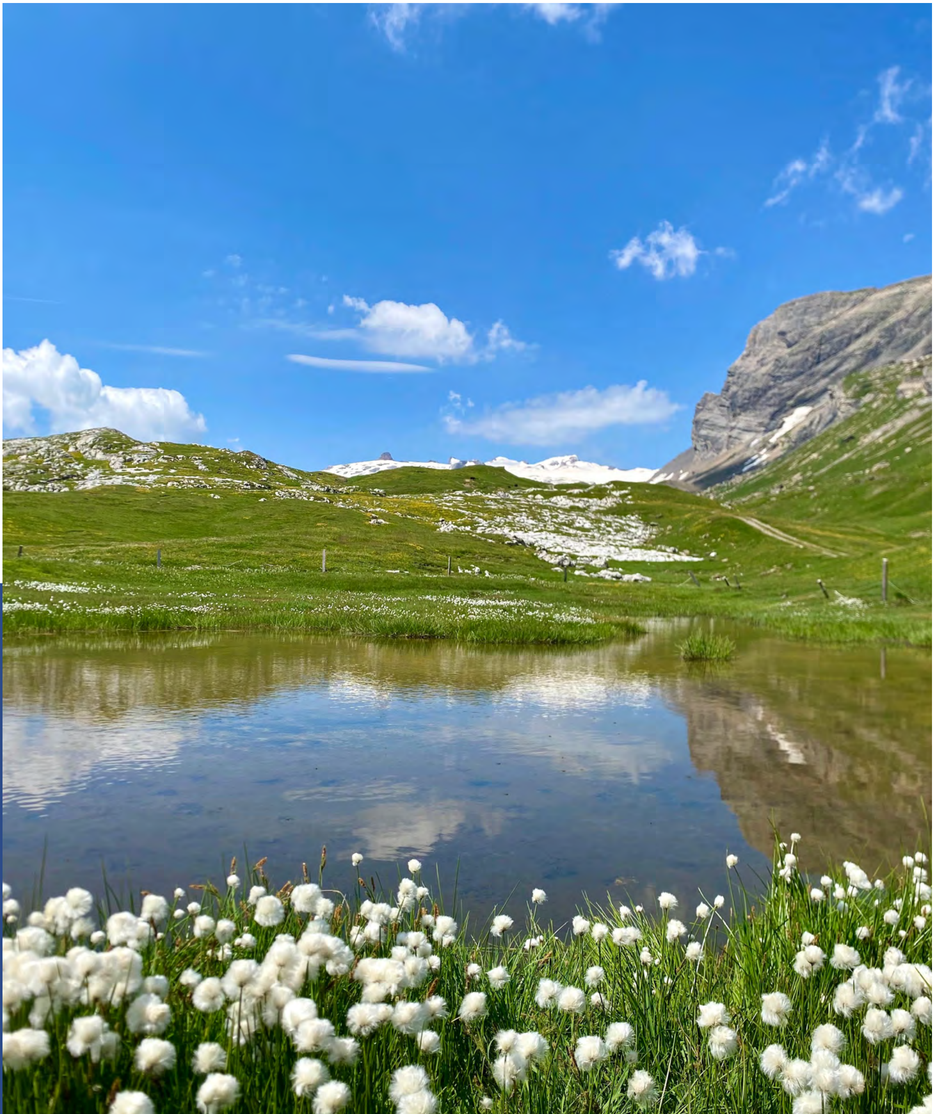


Photo François Wittemer - Col du Sanetsch - VS

MFM
MIRANTE FUND MANAGEMENT

NEWS SEPTEMBER 2024

NEW BOARD MEMBER

Violaine Augustin-Moreau

We are delighted to welcome Violaine Augustin-Moreau to our Board of Directors.

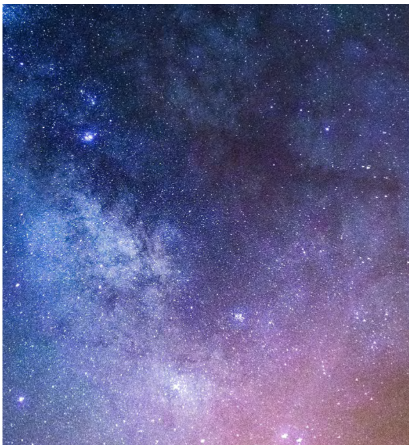
With a strong background in asset management, particularly in real estate, she will bring valuable expertise and a fresh perspective that will contribute to the strategic evolution of MFM.

SIZE OF THE QUOTED MARKET

$255 trillion

At the end of July, the total value of all global bonds and equities reached a record high of $255 trillion (a 2.5x increase since the global financial crisis), according to figures published this month by Bank of America Securities.

Specifically, the value of outstanding debt securities amounted to $130 trillion, compared to $71 trillion in 2008. The value of equities stood at $125 trillion, with market capitalization nearly quadrupling from its 2008 low of $33 trillion.



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

ALQUANT

A dynamic digital experience

Alquant, a Swiss company based in Crissier, became a key partner for MFM in 2024.

Affiliated with EPFL and certified by the InnoSuisse program, Alquant was founded by three longtime friends passionate about tackling complex challenges. Their team developed a cutting-edge solution to automate MFM fund performance reports on a daily basis.

Thanks to their technology, our MFM fund platform now offers enhanced accessibility as well as advanced, interactive visualization tools for all our investment strategies. These significant improvements have greatly enhanced the quality of our reports and the experience of our investors.

CONFERENCES

ECO Breakfast

Join us for our upcoming breakfast meetings dedicated to the MFM Northlight European Credit Opportunities fund, taking place in Zurich on September 11 and in Geneva on September 12. Don't miss the opportunity to engage with our industry experts.

RSVP: Damian.Milewski@mirante.ch

A WILD RIDE FROM FEAR TO SERENITY

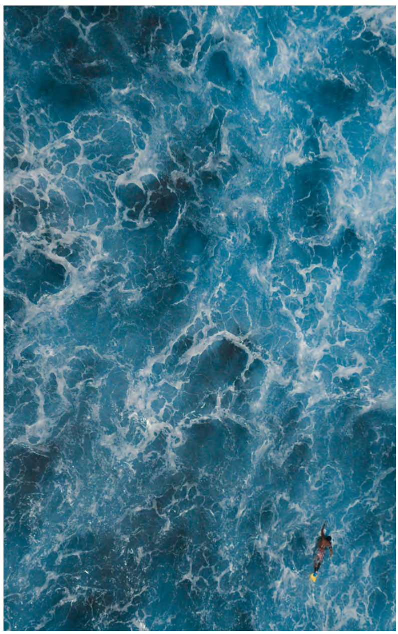
From recession concerns to yen-driven sell-offs, markets bounce back with renewed hope for a US soft landing.

Written by Frank Crittin, CIO of MFM

August turned out to be a challenging period for financial markets. The beginning of the month was marked by significant turbulence due to a combination of factors that shook investor confidence. The primary catalyst was U.S. labor market data, which came in well below analyst expectations. These triggered fears of an imminent recession and led to a massive sell-off in global equities, with markets dropping more than 10% in just a few days. The situation worsened with the unwinding of Japanese yen carry trades. Indeed, the unexpected decision by the Bank of Japan to raise its interest rates by 0.1 percentage points at the end of July caused a rapid rise in the yen. This appreciation of the yen, combined with rising Japanese rates and falling U.S. rates, made these carry trades much less attractive. As a result, investors quickly closed their positions, significantly increasing selling pressure on global markets, particularly in Japan.

Despite these initial shocks, markets found some relief when the Bank of Japan reassured investors by announcing a delay in its next rate hikes. This, along with more optimistic-than-expected U.S. economic data, helped to ease fears. The U.S. economy, although showing some signs of weakness, was supported by positive figures on inflation, unemployment claims, and retail sales. This bolstered the idea that the U.S. economy might achieve a near-ideal scenario where inflation continues to decline without stalling economic growth.

Although markets have recovered their losses, the cooling of the artificial intelligence-related euphoria, combined with speculation about a potential U.S. recession, continues to weigh on investor sentiment. Moreover, the investor reaction to Japan's first-rate hike highlights the fragility of global financial markets in the face of unexpected monetary policy changes.



AUGUST'S ROLLERCOASTER

Markets survived August's rollercoaster. After a wild start, global markets relaxed and settled down, with bonds leading the way to calm seas.

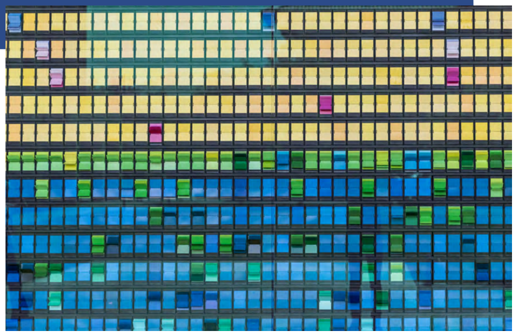
In August, equity markets experienced notable swings. Early in the month, investors worried that the Federal Reserve might not be acting quickly enough to prevent a recession, prompting a sharp sell-off. This market anxiety was particularly pronounced in Japan, where a combination of the Bank of Japan's surprise rate hike and the unwinding of yen carry trades triggered a massive sell-off. The Topix index shed 12% in a matter of days, marking its largest three-day drop since 1959. Despite this, the markets showed resilience. The equity sell-off subsided by mid-month as stronger U.S. economic data began to suggest that the economy might achieve a "soft landing" rather than a sharp recession. U.S. stocks led the recovery, buoyed by optimism about the Federal Reserve potentially lowering interest rates later this year. This shift in sentiment saw the U.S. market remain the best-performing region in August, transitioning from fears of a «no landing» scenario to expectations of a smooth «soft landing.» Sector performance was varied. Real estate outperformed, benefiting from its sensitivity to interest rates and anticipation of rate cuts in both the U.S. and Europe.

In the technology field, Nvidia is the barometer of artificial intelligence. Although rumors of production delays for its latest chip briefly worried investors, Nvidia's strong revenue forecasts finally provided some reassurance. However, despite the enthusiasm of investors for this field and the massive investments announced, some are beginning to wonder whether the pace of adoption will be as rapid as expected and whether the returns on investment will be there.

August was also a positive month for the bond market, both for credit premium and interest rate premium. While long-duration bonds benefited from expectations of rate cuts in the U.S. and Europe, high-yield and emerging market bonds also remained solid. Investors maintained their confidence in these assets despite the volatility in the equity market. This resilience can be partly explained by the attractive absolute yields of these bonds, which continue to offer protection even in the face of a potential economic slowdown. U.S. long-duration bonds were another standout performer, benefiting from growing expectations of rate cuts in the U.S. The yield on the 10-year U.S. Treasury bond declined from 4.17% to 3.90% over the course of the month, reflecting investor confidence in future monetary policy easing. Emerging market bonds also contributed positively to portfolio performance. The potential weakening of the U.S. dollar, which tends to benefit emerging market economies, along with strong investor risk appetite, drove demand for these bonds.

WHY UNDERSTAND MACROECONOMIC DRIVERS

Niels Bohr, Nobel laureate in Physics and father of the atomic model, famously said, «Prediction is very difficult, especially if it's about the future!»



Therefore, why focus on macroeconomics when it seems so difficult to predict? Still, understanding key macroeconomic drivers - such as global growth, corporate earnings trends, inflation, and interest ratesis essential for managing investment strategies. These factors dictate the behavior of major asset classes, impacting both risk and return. Rather than making speculative predictions, investors must assess the current economic landscape, identify structural shifts, and apprehend their long-term impacts on asset classes and their allocation strategy. Allowing room for error within the investment strategies is also crucial in a domain where many critical factors cannot be accurately calculated, measured, or fully understood. Uncertainties can often be distilled into probabilities. However, this doesn't completely solve the problem because we can't calculate the probabilities of things we don't know, but it helps manage and reduce the impact of randomness.

In terms of macro, in the U.S., Jerome Powell's speech at Jackson Hole hinted at a very likely shift in monetary policy in September. While inflation is slowing, with wage growth decelerating and unemployment still below 4%, the Fed may be poised to cut interest rates after two years of tightening. However, the weak U.S. jobs report has raised concerns about a mild recession, although any downturn is expected to be shallow, providing potential support to the stock market as rates eventually come down. Across the Atlantic, Europe faces more significant challenges. Germany's economy, barely growing since 2019, remains under pressure. The country is feeling the strain from China's economic slowdown - its largest trading partner.

In China, the outlook stays weak. Multiple rounds of stimulus have failed to revive growth and consumer demand, and structural issues such as a prolonged property downturn. As economists warn of "secular stagnation," China faces both low growth and inflation, dampening global recovery prospects. It has been confirmed recently by weak earnings reports from most Chinese companies generating more downgrades than upgrades by analysts.

Overall, while inflation in developed economies has stabilized and interest rates are very likely to come down, global growth concerns in US, China, and Europe will probably remain the most important factor driving asset class performances in the coming months.

POSITIONING

While geopolitical tensions and economic risks remain high, a disciplined, diversified strategy offers resilience and positions investors to capitalize on long-term growth.

As usual, financial markets continue to face numerous risks—economic, political, and geopolitical. While these uncertainties are challenging, they also present opportunities for those who adopt a disciplined and diversified approach. Structured portfolio construction and controlled diversification allow us to build resilient strategies, helping to navigate turbulent times while maintaining exposure to key investment premiums. In the long run, these approaches provide stability amidst short-term market fluctuations.

From an asset allocation perspective, the compensation offered to bond investors remains very attractive compared to equities. Our Equity Risk Premium indicator, although historically low, has recently risen slightly due to declining interest rates, particularly in the U.S. It still validates to maintain an exposure to bond-related investment premiums such as duration and credit. With higher interest rates, the combination of bonds and equities enhance expected returns while reducing overall portfolio risk. For equities, history suggests that defensive sectors like Utilities, Communication Services, and Consumer Staples perform well as central banks begin cutting interest rates. Additionally, small-cap stocks have historically outperformed during periods of falling rates, as they tend to benefit from improving economic conditions. However, high investor expectations, particularly regarding earnings, keep equities vulnerable to potential corrections. In this context, balancing growth and defensive positions in portfolios remains crucial. On the fixed-income side, central banks are struggling to manage investors' expectations around rate cuts, resulting in renewed volatility in the bond market. We are keeping a well-diversified approach in our fixed-income exposure including traditional government bonds, quality credit, convertible bonds, and emerging markets, all of which offer additional yield with different performance drivers and risks. We remain cautious about taking on excessive credit risk, given the current low levels of credit spreads. Similarly, we have a bias towards shorter-duration bonds (i.e. with low sensitivity to interest rate movements) to mitigate the risk associated with long-term interest rates and benefit from higher yields due to the inversion of the yield curve.

Geopolitical risks - whether related to U.S. elections, conflicts in Ukraine and the Middle East, or tensions in Taiwan - are at an elevated level. These events are difficult to predict and even harder to hedge. While these tail risks could significantly impact all asset classes, they are low-probability events. Rather than overreacting to such uncertainties, we focus on building robust portfolios capable of withstanding a range of potential outcomes. In conclusion, while the landscape remains complex, we encourage investors to lean into the volatility and view it as an opportunity rather than a threat, focusing on long-term goals rather than short-term noise. A structured portfolio construction and diversification should enable our strategies to manage risks while capitalizing on potential opportunities.

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

- US: growth slows down, the risk of recession is very present
- Europe : growth is extremely fragile, German industry is in crisis
- China: the economic recovery is running out of steam and stagnation sets in

CORPORATE PROFITS

- In the second quarter of 2024, global corporate profits increased by more than 10% from the previous year
- Bankruptcy rate remains at historically low levels
- Will the immense expenses linked to artificial intelligence bear fruit?

INFLATION

- Inflation is slowing in many countries with little sign that prices could accelerate again
- US : inflation is not yet at the central bank's target but going down
- China: low inflation is a negative signal of weak demand
- Japan: the exception with inflation which remains "high"
- Europe: close to the ECB's objective

INTEREST RATE

- The overall trajectory of rates is downward
- The US and Europe should lower their rates in September
- Central bank policies remain closely linked to macroeconomic data

RADIANT WEATHER VARIABLE WEATHER STORMY WEATHER

MONTHLY PERFORMANCE

30 AUGUST 2024

EQUITIES MARKET (LOCAL CURRENCY)

United States	2.37
World (all countries)	1.87
Europe	1.61
United Kingdom	0.98
Switzerland	0.98
China	0.58
Asia (ex-Japan)	0.46
Emerging Markets	0.40
Japan	-2.74

EQUITIES SECTOR (LOCAL CURRENCY)

Real Estate	5.24
Health Care	4.64
Consumer Staples	4.35
Utilities	3.76
Financials	2.30
Telecommunication Services	1.40
Industrials	1.33
Information Technologies	1.18
Materials	0.24
Consumer Discretionary	-0.11
Energy	-1.84

OTHERS (USD)

Industrials (CBR)	0.64
Global	-0.38

FIXED-INCOME (USD HEDGED)

US Treasury Long Duration	2.04
Emerging Market Hard Currency Aggregate	1.91
Global High-Yield	1.77
Global Aggregate Long Duration	1.49
Global Corporate Credit	1.19
Global Aggregate	1.10
Global Treasury	1.04
Global Aggregate 5-7 Year	1.02
Global Convertibles	0.94
Global Aggregate 1-3 Year	0.75
Global Inflation-Linked Bonds	0.49
Swiss Bond Index AAA-BBB (CHF)	0.29

MEET THE TEAM

Claudio Galati

Internal Control Manager

I am responsible for internal control, a role that primarily involves supervising and verifying the activities of portfolio managers and custodian banks.

This job requires great precision and extensive knowledge in the field of financial management.

Julia Renard

Student Master Data Science EPFL

The idea of my internship was to start the migration and optimization of the financial data system.

Specifically, I contributed to optimizing the system by simplifying the code, improving its efficiency, speed and robustness.

I was impressed by the complexity and expertise required to measure the performance of various investment strategies.

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.

Lausanne

Ch. de Roseneck 5
CH-1006 Lausanne

Zürich

Bleicherweg 47
CH-8002 Zürich

T. +41 58 590 10 00

info@mirante.ch
www.mirante.ch