MARKET OVERVIEW

DECEMBER 2024

MFM
MIRANTE FUND MANAGEMENT

NEWS DECEMBER 2024

3RD PILLAR BUYBACKS

Starting January 1, 2025, the Federal Council will introduce the option to buy back unpaid contributions to the 3rd pillar A

Individuals who, in certain years, have not made contributions to their individual pension plan (3rd pillar A) or who have made only partial contributions, will be allowed to pay these contributions retroactively through buybacks.

At its meeting on November 6, the Federal Council approved the necessary amendments to the ordinance on tax-deductible contributions to recognized forms of pension schemes (OPP 3).

Don't forget your contributions for 2024!

QUOTE OF THE MONTH

"Electricity consumption from data centers, artificial intelligence (AI) and the cryptocurrency sector could double by 2026"

The International Energy Agency (IEA), a forecaster, estimates that over the next two years, global power consumption from data centers could more than double from its 2022 level, reaching 1,000 terawatt hours by 2026 - equivalent to the electricity consumption of Japan.

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

QUANTHOME

Data-driven intelligence for real estate investment decisions

MFM recently signed a partnership with Quanthome for the provision and use of quantitative data on Swiss real estate funds, to create a new investment strategy in Swiss real estate in the form of an AMC (Actively Managed Certificate).

Based in Lausanne, Quanthome is a fintech specialized in extracting, analyzing, and distributing real estate data, covering structural, financial, and ESG aspects.

Quanthome's dynamic and talented team has developed the first platform offering exceptional data granularity for analyzing each real estate investment vehicle in Switzerland.

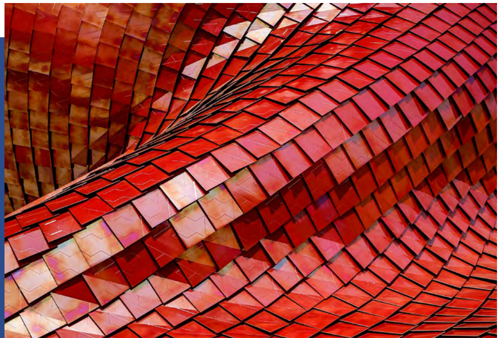
We are proud to be their first client to integrate this data into our quantitative investment process for a Swiss real estate strategy. We are confident that this partnership will strengthen and optimize the quality of our decisions for this new product.

ALGO-TRADING

Our Quant team recently took part in the "Algo-trading & DeFi Methods and Technologies" conference, hosted by Politecnico di Milano.

It was an excellent chance to connect with industry experts and spark new ideas for the future. Stay tuned!

RED WAVE, GREEN LIGHTS



The month of November was dominated by the American elections. Former President Donald Trump will return to the White House for the next four years, with the Republican Party in the majority in the Senate and the House of Representatives.

Written by Frank Crittin, CIO of MFM

Financial markets reacted to this result by stepping up their bets on assets that could benefit. The "Trump trades" thus pushed up bond yields, the dollar and, more generally, the American stock market. Despite conflicting winds ahead and daily speculation about appointments within the new administration, US stocks showed remarkable form, generating the best monthly performance of the year. They benefited from the euphoria generated by the red wave in Washington, a reduction in interest rates by the Federal Reserve and consumption which remains solid. Conversely, emerging and Asian markets suffered again, ending the month in negative territory, penalized by a still delicate Chinese economy and stimulus measures deemed insufficient to stimulate internal demand. Finally, Europe continues to show tangible signs of weakness, both politically and economically. One of the few positive points for European equity markets remains the likely significant rate cut which should be announced in December by its central bank.

On the sector side, consumer discretionary and financial companies outperformed, reflecting optimism around strong results and hopes of deregulation in the US. Discretionary consumption notably benefited from the strong growth of its flagship companies such as Tesla, Amazon and Home Depot.

The energy sector also posted a strong performance, benefiting from the likely recovery of production in the United States, symbolized by the campaign slogan "Drill, Baby, Drill". Finally, note the underperformance of the health sector, probably impacted by the appointment of Robert F. Kennedy Jr., a vocal and controversial critic of the pharmaceutical industry, to head the US Department of Health.

At the bond level, in the context of falling interest rates, all bond assets ended the month in positive territory. Convertible bonds stood out by capturing part of the equity risk premium, particularly that linked to companies with smaller market capitalization as well as its exposure to cryptocurrencies. Furthermore, long-duration sovereign and corporate bonds also increased significantly, mechanically benefiting from the announced rate cuts. In the commodities market, weakness in the Chinese economy continued to weigh on industrial metals, reflecting the lingering impact of sluggish Chinese demand.

AMERICAN ELECTIONS:

SOME LESSONS TO LEARN ABOUT INVESTING

Major geopolitical events often generate interesting and surprising reactions from financial markets. The American presidential election is no exception to this rule.

The first lesson is that it remains extremely difficult, if not impossible, to predict the future. Once again, the polls proved unreliable, even in the short term. Although most polls and models pointed to a heavily undecided outcome, few captured the possibility of such a strong Republican wave. This illustrates, again, the importance of avoiding basing investment decisions on predictions.

The second lesson is that, even when an event occurs, the reaction induced on the financial markets is also unpredictable. It is enough to reread the predictions of market strategists from one year to the next to see how far they have sometimes strayed from reality. In the context of the American presidential election, one of the consensus reactions expected by the majority of experts was an increase in uncertainty in the financial market, both in terms of stocks and bonds. A few weeks after the results, volatility (one of the statistical measures of financial risk) fell significantly, both for stocks and bonds. This phenomenon may be surprising, especially in a context where the unpredictability of the new president is no longer in doubt and could justify market instability.

In addition, the third lesson is that the excess of short-term analyses is more entertainment than information. Most of the time it distracts attention from long-term issues by exacerbating a major cognitive bias: confirmation bias. We tend to give more credence to what confirms our beliefs, while often being impervious to facts that contradict them. This mechanism can lead us to persist in the wrong direction, especially in investing.

This inability to predict the future, despite advances in communication and analysis tools, highlights the need for investors to remain humble. We know far less than we like to believe. Thus, it often makes more sense to focus on understanding the present — a far from trivial task — and focus on the fundamental drivers of financial markets over the long term. For stocks and bonds, they mainly include global economic growth, corporate profits, interest rates and, of course, inflation.

Source: 10 Investing Lessons from the 2024 Election, The Big Picture, Barry Ritholtz, November 7, 2024

GOVERNMENTS SANCTIONED, STRATEGIES TO ADAPT

As we approach the end of the year, it is often interesting to look back to see the main events of the last twelve months. 2024 will remain a year marked by an unprecedented number of elections.

In fact, the inhabitants of more than 70 countries voted to elect their government. This represents more than half of the world's population. Even if it is difficult to provide a brief summary of all the results, these votes were, for the most part, marked by a wave of popular discontent. They have generally been unfavorable to the governments in place, regardless of their political orientation. Donald Trump's victory in the US presidential election represents simply the latest example in a long series of defeats for the parties in power in 2024. This «anti-incumbent» trend illustrates a general climate of distrust towards political elites. The reasons for this rejection probably combine the consequences of the pandemic, persistent inflation combined with public budgets under pressure, and sharply increasing geopolitical tension.

From an investment point of view, strategies must integrate unpredictable public policies, because new governments, often elected on promises of radical or even populist change, will modify regulatory frameworks. Furthermore, disenchantment with democratic institutions raises questions about the long-term stability of economies and financial markets. It is crucial for investors to incorporate these scenarios into their strategy. Certain sectors more exposed to politics, such as energy, infrastructure or health, could experience increased volatilities. However, the rise of «anti-incumbent» sentiment should not be seen only as a risk, but also offering certain opportunities both in terms of stock selection and geographic, sectoral or factor allocations.

In conclusion, to navigate this paradigm shift, investment strategies will need to be agile and able to quickly adapt to new political and economic dynamics. It seems clear that increased diversification and solid, defensive portfolio construction will be essential to capitalize on opportunities while minimizing risks.

Source: "The 'super year' of elections has been super bad for incumbents as voters punish them in droves", AP News, David Rising, Jill Lawless and Nicholas Riccardi.

BETWEEN PRUDENCE AND DYNAMISM: THE 2025 PORTFOLIO

The global economic outlook remains generally positive, although growth is weakening slightly in rich countries.

In the United States, robust growth supported by a dynamic labor market contrasts with uncertainties linked to tariff increases and restrictions on immigration. In Europe, growth remains weak, particularly in Germany, where the economy is struggling to recover, while likely customs taxes will weigh on exports. Asia continues to outpace developed markets in terms of growth. China, with recovery plans targeted at real estate and consumption, could surprise positively. Corporate profits, a key driver of stock performance, remain strong, particularly in the United States, where policies to cut taxes and regulations could support them further. However, a global trade war could limit these favorable effects.

In terms of inflation and interest rates, the drivers of the performance of bond assets, with the economic slowdown, inflation is falling to levels close to central bank targets. Most are expected to maintain or reduce their rates, except in Japan. The main risk would be that a too rapid drop in rates would strongly boost growth, leading to inflationary pressures. The looming tax war will further complicate the equation for central banks. Furthermore, if the United States implements massive tax cuts, large tariff revenues and spending reductions, this could lead to a return of inflation, and potentially a rise in American rates.

From an asset allocation point of view, the remuneration offered to bond investors remains very attractive compared to equities. Our MFM Equity Risk Premium indicator remains at a historically low level. The drop in interest rates has been completely offset by the strength of the stock markets, and therefore the drop in their expected return. This argues for maintaining exposure to bond-related investment premiums such as duration (sensitivity to interest rates, also called «bond premium») and credit (sensitivity to bankruptcy risk, also called «credit premium»). The main risk linked to exposure to interest rate and credit premiums is linked to a return of inflation, mainly in the United States.

Financial markets are, as is often the case, threatened by a multitude of economic, political and geopolitical risks. Identifying the opportunities created by political choices and geopolitical changes will be as important as guarding against the risks they imply. 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

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

GLOBAL GROWTH

- Global growth remains positive but slows slightly in rich countries
- United-States: it remains robust, but the president’s decisions will weigh on the future
- Europe : it is extremely weak with its main engine, Germany, at a standstill
- China : investors are hesitant about the impact of stimulus measures
- Risk of chaos in trade from the United States

CORPORATE PROFITS

- The global trade war announced by Trump will put pressure on corporate profits.
- In the United States this could be offset by tax cuts and regulatory relief
- In Europe and Asia, profits are more heterogeneous, but Asian economic growth should support the results of local companies

INFLATION

- Inflation is falling to levels close to central bank targets, partly thanks to the economic slowdown, which pushes interest rates to be maintained or reduced
- The main risk is that a rapid drop in rates excessively boosts growth, causing inflationary pressures

INTEREST RATE

- The majority of central banks should maintain or reduce their interest rates, except Japan
- If Trump’s policies increase inflation and deficit, the Fed could become less accommodative
- Central bank actions remain closely linked to macroeconomic data

RADIANT WEATHER   VARIABLE WEATHER   STORMY WEATHER

MONTHLY PERFORMANCE

29 NOVEMBER 2024

EQUITIES MARKET (LOCAL CURRENCY)

United States	6.22
World (all countries)	4.88
United Kingdom	2.55
Europe	1.06
Switzerland	-0.34
Japan	-0.76
Asia (ex-Japan)	-2.56
Emerging Markets	-2.74
China	-4.12

EQUITIES SECTOR (LOCAL CURRENCY)

Consumer Discretionary	9.62
Financials	8.39
Energy	5.44
Information Technologies	5.29
Industrials	4.96
Telecommunication Services	3.06
Consumer Staples	2.87
Utilities	2.43
Real Estate	2.33
Materials	-0.38
Health Care	-0.45

OTHERS (USD)

Global	0.05
Industrials (CBR)	-0.75

FIXED-INCOME (USD HEDGED)

Global Convertibles	3.60
Global Aggregate Long Duration	2.13
US Treasury Long Duration	1.82
Swiss Bond Index AAA-BBB (CHF)	1.48
Global Corporate Credit	1.34
Global High-Yield	1.32
Global Aggregate	1.19
Global Aggregate 5-7 Year	1.18
Global Treasury	1.12
Emerging Market Hard Currency Aggregate	1.00
Global Inflation-Linked Bonds	0.71
Global Aggregate 1-3 Year	0.50

MEET THE TEAM

Roland Kesselring

Relationship Manager

I work with institutional clients in German-speaking Switzerland, a role that I find deeply fulfilling. It allows me to share my in-depth knowledge of convertible bonds, acquired over more than 20 years of experience, while making a significant contribution to the goals of the institutions I collaborate with.

I find it extremely rewarding to build authentic and long-term relationships with my clients.

Éric Dégeorges

Internal Controller

I enjoy my work in internal control because every day brings a new story to life.

My main mission is to anticipate the potential weaknesses that could arise in our activities and address them as needed.

My role is not that of a policeman who would obstruct activity, but rather that of an advisor who guides and secures MFM employees

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.

Photo: Giordano Colombi - Nov. 2024
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