Quarterly Commentary

Miralta Narval Europa

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MiraltaBank
Advanced Banking

The New Political Economy

Since October 2022, where global liquidity hit record lows, we have again witnessed the speed and intensity with which currency devaluation returns to the scene. This phenomenon has been evident after every significant episode of stress experienced in the last 18 months, including the Budget Crisis in the UK, the Regional Banking Crisis in the USA, In each of these situations we have seen how Central Banks and Treasuries have intervened, injecting liquidity into economies which, despite being over-indebted and lacking dynamism, have shown a remarkable recovery in most financial assets, thanks to this improvement in global liquidity. Gold and Bitcoin, which have once again demonstrated their capacity as hedges against monetary inflation, have been particularly noteworthy in this context.

In the United States, the symbiosis between Treasury Secretary Janet Yellen and Federal Reserve Chairman Jerome Powell has offered temporary relief to the country's worrisome fiscal situation. The adjustment in Yellen's debt issuance and financing strategy (bills vs. bonds) has acted as a disguised curve control, easing pressure on long maturities and significantly loosening financial conditions. This has caught Powell unawares, who, much to his regret, has had to ease his rhetoric as the November elections approach. In any case, and despite the time gained, excessive government indebtedness in terms of GDP and an unsustainable fiscal situation make concepts such as financial repression and fiscal dominance more relevant today than ever, once again highlighting the worrying lack of independence of central banks.

As we have argued since the first measures taken in the pandemic, which were later ratified in June 2021 with the G7 Carbis Bay communiqué, we have witnessed the largest state intervention in all areas of the economy since World War II. And once again we have also witnessed the abysmal difference in the ability, both in terms of magnitude and agility, between the United States and Europe to implement measures, thus widening the gap in productivity and economic growth between the two regions.

The situation in Europe is particularly alarming. To the persistent political paralysis, aggravated since the European Debt Crisis of 2012, we must now add the loss of competitiveness and productivity of an economy lacking in innovation and demographic dynamism, suffocated by excessive regulatory pressure and tax burden, with a weak energy and resource position, and where ideology is prioritized over the economic needs of its companies. This inevitably, and despite those who would have us believe that sustainability is not at odds with competitiveness, has triggered the flight of companies to the other side of the Atlantic, in the heat of greater incentives, more succulent valuations and more competitive energy prices.

In addition to the aforementioned challenges, there is the credit crunch resulting from rate hikes and the tightening of credit standards. This scenario is further complicated by the loss of independence of the European Central Bank, which has taken on the fight against climate change and sustainability as its own, which will make it more difficult for certain sectors and companies that are not in line with the regulator's expectations to access credit and financing, thereby slowing economic growth, job creation and technological innovation.

In this new politicized economy, where government spending accounts for 49.25% of GDP, and in the absence of regulators to encourage innovation and a regulatory framework conducive to the development of a competitive economy, our strategy must focus on identifying those sectors and companies to which the flow of credit and capital will be facilitated, putting valuations in perspective and thus avoiding falling into the so-called "value traps".

PERFORMANCE

The fund returned +14.44% in Class A at the end of the first quarter, compared to an MSCI Europe Net Total Return of +7.63%.

In this first quarter the equity markets have continued with the good tone they showed in the last part of 2023, despite the cuts in the expectations of downgrades by the Central Banks. The themes that have performed best and brought the highest returns to the portfolio have undoubtedly been those of companies sensitive to a significant appreciation of the Bitcoin. Despite the correction in January, the impact of the entry of the etfs and the approaching halving in April have made companies such as Microstrategy or Coinbase make the difference in terms of aggregate profitability. AI, defense, banking and insulin strategies also contributed significantly to the portfolio's good performance.

On the negative side, interest rate hedges, utilities and mining have been the strategies that have detracted the most from the portfolio.

POSITIONING AND OUTLOOK

During the first quarter, as in our fixed-income strategies, we maintained a certain degree of prudence in terms of exposure, due to the large adjustment of the short maturities of the interest rate curves. In dollar terms, we maintained a slightly long bias , around 10%, which allowed us to cushion some of the poor hedging performance.

In terms of names, we have eliminated exposure to the large American technology companies, and more specifically Meta, Microsoft and Alphabet. We also took a partial profit on the Nvidia position. The good performance of the insulin strategy with the Eli Lilly and Novo Nordisk positions led us to take partial profits as well, pending a possible correction in the short term.

We have also taken partial profits on the position of Bitcoin price-sensitive companies, due to the large size they were taking in the portfolio and the high valuations in the short term, especially in the case of Microstrategy.

On the buy side, we have increased exposure, around 10% of the portfolio, through the purchase of Russell 2000 derivatives, due to the attractive valuations and the possible positive impacts for small caps of a possible lowering of interest rates in the second half of the year. We have also added some exposure to companies that may benefit from this new war economy in Europe, such as Thales, Dassault or Rheinmetall. We have also added two small positions in network security companies such as Fortinet and Palo Alto.

In the world of digital assets, and given the sales we have made of Microstrategy and coinbase, we have added a Galaxy Digital position to the portfolio. Galaxy is a financial company that offers multiple traditional financial services in the world of crypto assets, such as brokerage, management, consulting and research or securities lending. To these services we have to add its Bitcoin mining branch, with one of the most efficient miners globally, or the new staking services. Galaxy Digital is one of the most recognized major players in the crypto world, and because it is based in Canada, it trades at much lower multiples than its U.S. peers. The company has been interacting with the Sec for some time to achieve a listing on Nasdaq.

We believe that the equity market will continue to be supported over the coming months by a combination of factors, including: the continuation of the deflationary process, a Federal Reserve that is closer than ever to initiating the tapering cycle as we approach the November elections, and relatively light investor positioning that is reflected in the still moderate levels of leverage in the system.