

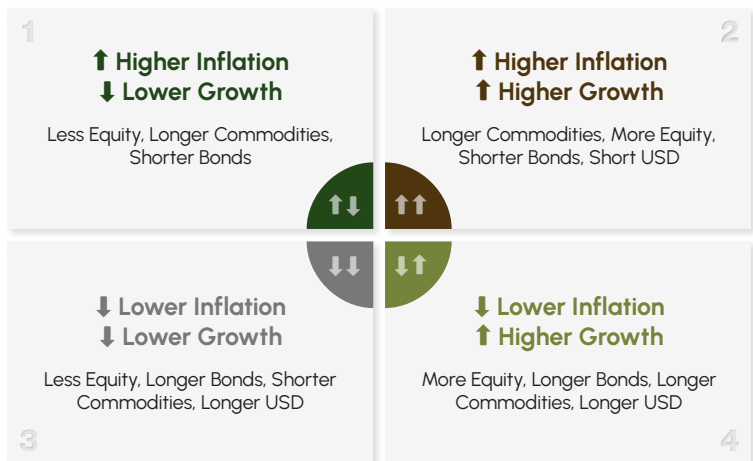


# AlphaCentric Symmetry Strategy Fund

## 2023 Review and 2024 Market Outlook

**December 31, 2023** — Portfolios need to have elements that can adapt to diversify across a wide range of outcomes. A popular framework is the quadrants approach – balancing risk in assets that do well in different combinations of inflation and growth. After decades of low and steady inflation in developed markets as well as periods of incredibly loose monetary policy and decently tight labor markets – many portfolio constructs ignored the high inflation box and just focused on protecting against the low growth outcome, relying on bonds alone to diversify. When inflation came roaring back, these portfolios struggled.

The Alphacentric Symmetry Strategy (SYMIX) shined for a couple of reasons related to inflation. First, it allows short exposures in fixed income. Second, it has a bigger toolbox of assets to allocate to, including commodities and currencies. This combination allows SYMIX to adapt to the changing environment. The portfolio's current allocation is near max Equity, neutral Fixed Income and Currencies, and short Commodities. Examining each of these markets can provide insight into how each could react in the upcoming quarter.



### Stocks and Credit

At the end of 4Q2023, the stock market is close to record highs and trading at fairly expensive multiples – assuming 2023 SPX earnings come in at the 215 currently expected, we are at a 22 PE. Using 2024 expectations of 240, you get a forward PE a little

under 20. Over the last few months, the valuation multiple has expanded. This has been driven in part by the expectation of interest rate cuts over the next couple of years being sooner and greater than previously expected, as inflation normalizes, and the Fed reaction function is being reassessed. We will see how that plays out, but stocks are not cheap right now and priced for a smooth, soft landing.

SYMIX's allocation to value equities will participate in broader market expansions but not to the degree the overweight megatech would if the expansion remains AI centric. If Equities move lower, SYMIX's allocation will move lower as well. With both yields at fairly high levels and spreads in places also remaining attractive, the credit allocations should perform well.

### Fixed Income and Currency

Rates look to have peaked and markets assume inflation is solved but markets have sure been wrong before — on the pace of inflation reduction as well as the Fed reaction function. These are complex, reflexive systems. If they are right, Managed Futures will move to long positions in fixed income. If inflation is stubborn, however, and doesn't continue to come down as quickly or the Fed is spooked by the rapid loosening of conditions, yields could go back up.

The USD implications of a shifting monetary policy landscape are also large, as the past few years have seen a strong dollar against major currencies driven in part by rate differentials. Witness the large move down in the Japanese Yen over the past few years. US rates went up 500bps, at 75bps a clip for a time, while the Japanese maintained the Policy Balance Rate at -10bps. Should the Japanese decide to end the period of extraordinarily low rates while the US is cutting rates by 150bps, we could see large shifts in the yen.


Currency moves are often driven by diverging monetary and fiscal policy stances – the last mile of inflation may well be bumpy and experienced differently in different countries. We also have elections in the US and the UK that could usher in very different policy. Chinese stimulus measures and the subsequent impact on the 'commodity' currencies of Australia and Canada

could also drive currency volatility and uncertainty. SYMIX has been short the longer end of the bond market coming on two years, and as rates stabilize, is now reducing the shorts. Currency allocations have been more transitory in 2023 - if currency trends develop, the strategy should participate.



**Movement in the supply of commodities (like oil) could go a long way in moving markets and affecting high prices**

### Commodities


We see similar potential for moves in commodity markets, where there are growing imbalances. Copper is a great example. The world may be sliding into a Copper deficit over the coming years, impacted on the demand side by the continuing shift to a renewable energy infrastructure and electric vehicles as well as on the supply side through political disputes in producing countries. That this worsening deficit picture is happening amidst the downturn in Chinese property makes us wonder what happens if stimulus measures are enacted there. Oil markets are also likely to be in focus as the forces of incredible US supply growth creates tensions with OPEC production cuts and continuing Russia sanctions...not to mention heightened tensions in the Middle East. It only takes a couple of million barrels a day either way on supply and demand to move markets a big way. Grain markets also may be coming off a period of low supply and see the high prices of the past couple of years dissipating. Should trends develop, SYMIX will participate. 

### Broader Economy

The past 12 months have been fascinating to observe through an economic lens. One word to describe 2023 - resilience. Interest rates moved up another 100bps, surpassing the mid-2000s peak by a quarter point, core CPI fell from 5.7% to 3.9%. Using a past 6m annualized version of core PCE, the Fed is already at target. The markets oscillated between fearing imminent recession driven by monetary policy then turbocharged by a series of bank failures that were expected to tighten financial conditions further and hopes for

a soft landing.

Despite the expectation that the path to lower inflation ran through slowing demand and raising the unemployment rate, the benchmark U3 unemployment rate spent the whole year under 4% and averaged ~3.6%. GDP remained solid. Resilience. We see the economy over the next few years as benefiting from a rapidly improving inflation picture and we expect in due course lower interest rates. The inflation situation seems well behind us, although it is taking the official data a while to catch up due to some lags in the manner in which housing and rent data flows through. The 6m annualized rate of core PCE is now under the Fed's target even with housing still exerting its lagged upward pressure. As that comes down and with a bit of luck, the Fed may stick the soft landing.

At the same time, the economy may start to feel the benefit of the large fiscal packages recently passed. The IIJA, IRA and CHIPS Acts are wide ranging industrial policy backed with real dollars targeted into the economy through long lead time projects and could be beneficial to many domestic industrials. These also in some ways help to alleviate the broader macroeconomic concerns - they act as a bridge through other areas of rates driven slowdown for employment and create domestic supply, smoothing the economic cycle from both sides. Building SYMIX upon the quadrant framework allows the strategy to shift exposures based on the changing economic environment. 

**Investors should carefully consider the investment objectives, risks, charges and expenses of the AlphaCentric Funds. This and other important information about the Fund is contained in the prospectus, which can be obtained by calling 844-ACFUNDS (844-223-8637) or at [www.AlphaCentricFunds.com](http://www.AlphaCentricFunds.com). The prospectus should be read carefully before investing.**

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