

# UBAM – SWISS EQUITY

## Quarterly Comment



For Professional Investors in Switzerland or Professional Investors as defined by the relevant laws.

The classification of the fund(s) as per the Sustainable Finance Disclosure Regulation (SFDR) is available on ubp.com or in the latest prospectus.

### Market Comment

- Despite the volatility brought by the banking sector fallouts over the month of March, major equity markets still delivered positive performances over the first quarter of the year. The MSCI AC World finished Q1 up +7.3%, with European equities gaining +8.6%, US equities +7.5%, Japanese equities +7.1%, Swiss equities +5.9% and Emerging Market equities +3.9%. The SPI Extra also delivered strong results over the period with +10%, benefiting from its exposure to recovering Industrials and IT sectors, rather than to pressured banking names Credit Suisse and UBS.
- Major central banks maintained their tightening stance announcing rate hikes during the month, confirming their confidence in the resilience of the banking sector. The Fed raised key rates by 25bps on the back of modest growth, high inflation and ongoing job gains. The ECB also raised rates by 50bps citing inflation concerns. Interestingly, despite less pressure to combat inflation in Switzerland, which currently stands below 3%, the SNB chose to lift rates by a further 50bps in March. This underlined the strength of the economy, as the hike was initiated the same week as Switzerland saw one of its two systemic banks be taken over. The global earnings momentum continued to deteriorate with 2023E EPS growth reaching 0.2% for global equities at the end of March as the recent tension in the banking system increased the odds of a recession in the coming quarters. The 12m forward PE ratio for the MSCI AC World traded around 15.2x, below its long-term average at the end of the quarter. The US Manufacturing PMI came in slightly higher in March at 49.2 vs 47.3, with sentiment increasing on production and employment.
- For Swiss equities, the earnings picture remained resilient with 14.4% expected for 2023, and a stable 11.5% for 2024. Swiss equities traded at 17.9x forward PE ratio, close to pre-pandemic levels. The KOF leading indicator slightly decreased from 98.9 to 98.2 at the end of March, reflecting the financial stress and the global uncertainties. Trade balance also came in lower at 3.3bn CHF vs 4.9bn for the prior month, driven by lower exports as well as lower imports. The Swiss Manufacturing PMI dropped over March down to 47 from 48.9 for the previous print, notably on weakening sentiment on backlog of orders, inventories and prices. The yearly inflation rate in Switzerland fell nevertheless to 2.9% in March from 3.4% in February with yearly core inflation also slowing to 2.2% from 2.4%. This was driven by lower energy and lower core good prices.
- Over the month of March, the defensive Healthcare and Consumer Staples sectors were the largest contributors to the SPI's performance, while on the other hand, Financials and IT were the largest detractors. In terms of individual names, Novartis and Nestlé were the best contributors, whereas Credit Suisse and UBS



were the bottom detractors, coming under pressure from the merger announcement.

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## Performance Review

- UBAM – Swiss Equity delivered +7.5% in gross performance over Q1 2023, versus +5.9% for the SPI. Both sector allocation and stock selection contributed positively to relative performance (+0.3% and +1.3% respectively). Stock selection in the Healthcare and Financials sectors was among the largest contributors to performance over the period.
- Over Q1, the biggest contributors to relative performance were the underweight in Roche, the absence of exposure to Credit Suisse as well as the overweight in Lonza (+67bps, +38bps and +31bps respectively). Roche lost -6.9% over the quarter after a member of Roche's owning families sold 2.5% of bearer shares at a discount in February. The name continued to face pressure from a subdued outlook for 2023 with lower expected sales and profits driven by the Covid-19 overhang, along with its CEO change in March. Credit Suisse dropped another -70% over Q1, as the bank was acquired by rival UBS in the aim of containing the crisis of confidence that spiralled in mid-March. Lonza gained +20.8% after delivering on solid FY22 sales and results that came above consensus, and further confirming its mid-term outlook. The company also increased its dividends and announced a share buyback program of up to CHF 2bn planned over 2 years.
- The main detractors of relative performance over the period were the absence of exposure to Richemont, Holcim and Kuehne + Nagel (-67bps, -31bps and -17bps respectively). Richemont was up +21.7% in Q1 despite reporting a slowing pace of organic growth driven by the shape of the recovery in the Chinese market. The name also faced short-lived speculative rumours of some take-over interest from the LVMH group in February. Holcim appreciated +23% boosted by a fast start of the year with 7 acquisitions announced in the first 2 months of 2023. The company also reported 8.8% sales growth despite the disposal of its large cement businesses in India and Brazil. Kuehne+Nagel 's share price rose +26.3% following a reported 20% net sales increase and 12% gross profit growth, benefiting from recent supply chain problems driving higher margin and pricing. However, the outlook for 2023 remained vague with the final quarter of 2022 showing a normalisation of trends with the global economic slowdown.

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## Portfolio Activity and ESG

- Over Q1 the team exited the position in Logitech, following a profit warning, and liquidated the residual position in Autoneum after disappointing results. The position in Vontobel was also sold following disappointing results on continued difficulties in AM. The position was replaced by Julius Baer, where the team sees good operational and market momentum. The team also diversified the exposure to foreign stocks by reducing the position in Thermo Fisher in order to initiate a new one in Mastercard, which is benefiting from reopening and cross border spending. The team introduced a new position in Richemont, in the aim of decreasing its underweight in the portfolio vs the benchmark. The Consumer is proving to be more resilient than expected in view of continued full employment. In this context, it is possible that the optimism that the Chinese Consumer, post pandemic, will return to luxury investment is not entirely misplaced, especially if the post pandemic consumption witnessed in the West is emulated in China. A new position in Flughafen Zurich was added on continued travel recovery post Covid and the expected return of transit passengers from Asia into Europe and



stable economic development in Switzerland supporting both travel and real estate / commercial activities.

- The Swiss Equity strategy did not have any exposure to Credit Suisse, and the existing position in UBS has been reduced prior to the merger announcement. The team continues to monitor the developments in the financial sector but view the Credit Suisse-UBS deal as generally constructive for UBS as it reinforces their leadership in WM.
- At the end of March 2023, the portfolio had an ESG Quality Score of 9.3, with a AAA rating versus 9.6 for the SPI and a AAA rating (based on MSCI ESG Research ratings). The Swiss Equity portfolio follows a strict exclusion policy. It does not hold any position identified as being in violation of international standards by both data providers MSCI ESG Manager and Sustainalytics. The portfolio has a weighted average carbon intensity that is 76% lower than its benchmark, with 27.8 tons of CO2/\$m sales vs 115.9 tons of CO2/\$m sales for the SPI.

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## Outlook

- Despite some volatility and headwinds during the first quarter of the year as well as a further downgrades to the global earnings picture, global equities have gained +7.3% in performance with a resilient +6% for Swiss equities pulling through the banking sector setbacks. Looking into the second quarter of the year, the team would expect companies to execute well on their existing order books under more favourable conditions: supply chains have eased, transport costs and energy costs started falling, and wage cost inflation seems to be generally covered by price increases of goods and services. Investors should also start to look toward 2024 earnings as we move through the year, past the contained Bank fallouts, and through the earnings results, where an attractive >10% EPS growth and reasonable valuations still provide attractive investment opportunities.
- In this environment, Swiss equities are well positioned with a resilient earnings picture, a defensive positioning in predominant Healthcare and Consumer Staples sectors but nevertheless a high-quality growth exposure to the small and mid-cap space. UBAM – Swiss Equity continues to focus on companies with visible earnings trajectory while maintaining an overweight relative to the SPI in the small and mid-cap space, which is expected to deliver strong performances as the market looks towards 2024 earnings and GDP growth momentum.



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