

# UBAM – Multifunds Secular trends

Quarterly Comment | Q2 2020

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## Market Comment

- Risk assets rebounded firmly from their March lows through Q2 although sentiment remained skittish around news flow pertaining to COVID-19 and the increasing threats of a second wave, whilst geopolitical risk in the shape of the fractious relationship between the US and China remains.
- This has overshadowed supportive macroeconomic data which is providing impetus to the bullish narrative although it doesn't take much to beat the extraordinarily depressed readings set by the economic fallout from the virus. An example of this can be seen by the US retail sales figure for May which showed a +17.7% rebound from the previous month, ahead of expectations of +8.4%. Consumer consumption patterns carry more weight in the US today given that ~70% of the US economy is driven by the consumer.
- Elsewhere in the US, jobs data also came in better than expected earlier towards quarter end with the unemployment rate declining from 14.7% to 13.3% as 2.5mn jobs were added back to payroll. This was higher than expected. The New York Fed Manufacturing survey also jumped the most since records began in 2001 in June as the general business conditions index advanced to -0.2 from -48.5 a month earlier whilst firms also grew more optimistic about future conditions. Data is typically noisy and volatile during periods like we are in today, however it is encouraging, nonetheless.
- Whether the recent bounce in data morphs into something firmer and more durable remains to be seen however leading economic indicators and financial conditions continue to provide impetus to this trend. Encouragingly the Citi Economic Surprise Index in the US has recently touched its highest level in history but admittedly the low readings set during the recent contagion make the bars easier to beat. However, it remains a net positive nonetheless as economies continue to reopen.
- On central bank policy and in the US, the FOMC concluded and the Fed reiterated that it expects to maintain the near-zero federal funds rate until it is confident the economy is on track to achieving the central bank's dual mandate. The FOMC's dot plot illustrates a strong likelihood that rates will remain at zero until the end of 2022 whilst Fed Chair Powell reiterated this message during the press conference afterwards. On QE, the Fed continues to purchase around \$80bn of US Treasuries and \$40bn of mortgage backed securities each month whilst the Fed also announced that it now expects to begin buying corporate cash bonds outright through its already announced "Secondary Market Corporate Credit Facility" which has capacity of \$250bn. Only ~\$5bn has been added so far which has primarily been through ETF instruments.

Sources: UBP, Bloomberg Finance LP.



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## Performance Review

- During Q2, the fund returned 22.18% versus 19.22% for the MSCI AC World Index, with an excess net return of +2.96% net of fees in USD (Institutional share class).
- Both theme and manager selection were strong. During the sharp market recovery, the best performers were the managers focusing on AI & robotics, technology and consumer growth.
- The fact AI & Robotics was the best performer does not come as a surprise given it is a high beta theme including sub themes such as industrial automation and semiconductors which tend to be more cyclical. 5G related names also performed well as they are expected to be key beneficiaries of infrastructure packages.
- Despite the gradual reopening of the economy, internet and e-commerce kept doing well, hinting that some behavioural changes might be permanent rather than temporary. Numerous companies within and outside the technology space have announced that they were planning to increase their use of remote working beyond the crisis, which has a positive impact on their cost structure and is a tailwind for solution providers.
- Consumption continued to perform well relative to the broader market. Overall, stocks exposed to the digital transformation of the economy and Emerging Markets related names did very well. On the other hand, defensive sub-themes, such as strong brands, lagged the broader market.
- Unsurprisingly, the most defensive themes, such as listed infrastructure, consumer defensive and nutrition, underperformed the broader. However, these managers have been able to beat their respective benchmarks in addition to playing a key role in making the strategy “all weather”.

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## Portfolio Activity

- No manager changes during the quarter.
- The portfolio has been adjusted early June, slightly trimming outperformers in the technology and healthcare space that were direct beneficiaries of the COVID-19 pandemic and marginally adding to financials and finTech as well as climate and environment strategies, whose performance was more affected by the outbreak and expected to rebound during the reopening phase of the economy.
- The aim is to preserve the upside potential and slightly reduce the style bias in order to be able to post positive relative performance in various market conditions.

Sources: *UBP, Bloomberg Finance LP.*

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## Outlook

- The global pandemic is substantially reshaping our world and accelerating the development and adoption of themes that have always been part of our strategy.
- While the positive impact on our Consumption Patterns and Disruptive Innovation trends may seem obvious as the current pandemic has accelerated the move towards automation, online trade, remote working and mobile payments, some core themes in the Demographics and Climate will almost certainly be able to take advantage of the current situation.
- Typically, green infrastructure investments are very likely to be part of stimulus packages as several studies point out that they create more jobs per dollar invested than traditional infrastructure investments.
- Markets and sentiment overall continue to be broadly caught between the cross hairs of the simmering likelihood of a second wave of the virus versus masses of liquidity and rebounding economic data as economies reopen.
- The fiscal and monetary response to the global recession by the world's central banks and governments has not only been unprecedented in terms of its timing but it has also been colossal in its size. According to some estimates, so far there has been a \$20trillion commitment from the world's authorities to fill the economic impact of COVID-19 which by some is estimated to cost the world's economy \$9trillion in lost productivity over 2020 and 2021.
- Within the G4 for instance, central banks' balance sheets are expected to increase by ~ +25% over the coming 12 months with the US Federal Reserve's purchases alone projected to equate to one third of US GDP or equating to nearly 28% of the S&P 500's market cap or ~43% of the Barclays US Aggregate Bond Index.
- The threats posed by a second wave of the virus cannot be dismissed however but there remains a stark divergence in the relative valuations between cyclically orientated equities relative to their more defensive peers

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