

UBAM - GLOBAL 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

- Volatility returned over the third quarter of the year with mixed results for equity markets. The MSCI AC World ended Q3 down -1%, while US equities were up +0.6%, European equities +0.7% and Japanese equities +5.2%. Emerging markets on the other hand lost more than -8% over the period and Swiss equities dropped close to -2%.
- With increased worries coming from the Chinese real estate sector, rising commodity prices and supply disruptions, equity markets came under pressure over the third quarter. The last days of September saw bouts of a sector rotation back into value names with investors moving to end the quarter by booking profits on performing names. While the pace of positive revisions on global equities earnings growth moderated somewhat, it stood at an impressive 49% at the end of the quarter, and at 8% for 2022. In terms of valuation, the MSCI AC World traded around 17.5x 12m fwd PE ratio at the end of September, representing a -12% correction in multiples since the beginning of the year.
- US PMI unexpectedly came in higher at 61.1 for September vs 59.9 for the previous print, supported by solid consumer demand and business investment. Pressure however was recorded in the other segments with the shortage of materials, rising commodity prices and goods transportation difficulties. The manufacturing PMI for Europe came in lower for September at 58.6 as supply chain issues continued to weigh on sentiment. Following the Fed's meeting in September announcing that tapering should start before the end of the year, inflation forecasts were raised for 2021 and 2022 and the Fed dots were revised up for 2022. The Fed confirmed its expectation for a transitory inflation driven by bottlenecks, that should slow down to 2% over next year.
- At the end of the third quarter of the year, a sector rotation back into Energy, Financials, and IT drove global equity markets with these three sectors finishing Q3 as the largest contributing sectors to the MSCI AC World's performance; while Materials, Consumer Discretionary and Communication Services were the largest detractors. In terms of individual names, Microsoft, Apple and Tesla were the main performance drivers while Alibaba, Tencent and Amazon were the main drags to the MSCI AC World.

Performance Review

- UBAM – Global Equity delivered -0.46% in gross performance over the third quarter of the year vs -1.05% for the MSCI AC World, with +0.6% in gross excess return. Sector allocation and the currency effect had positive contributions with +47bps and +15bps respectively, while stock selection was neutral over the period. The underweights in the Consumer Discretionary and Materials sectors were the biggest contributors to relative performance over the period, as well the underweight in Emerging Market currencies.
- Over the third quarter of the year, the main contributors to performance were the overweights in Thermo Fisher and Aon as well as the position Bawag (+40bps; +29bps; and +31bps respectively). Thermo Fisher rose more than +13% over the quarter as the company's announced 2022-2025 guidance came in well above expectations, driven by a surge in Covid-19 testing revenues on the back of the delta variant. Aon's share price appreciated +19.9% as the market welcomed the news of halting their planned merger with Willis Towers following the DOJ's antitrust litigation. Aon also reported solid Q2 earnings results that came above expectations. Bawag's share price appreciated close to +20% after a strong set of Q2 results and improved returns outlook for the full year.
- The main performance detractors over Q3 were the overweight in Sunrun and Sunny Optical as well as the position in Stoneco (-49bps, -30bps and -43bps respectively). Sunrun dropped -21% despite beating estimates on quarterly sales figures. The company's Q2 EPS results came in however lower than expected, driven by accelerated sales activity and upfront cost recognition timing. Stoneco lost -29.3% as the company reported net loss for Q2 with a drop in total revenue and withheld its FY21 forecasts due to short term headwinds for its credit business and technical challenges with its new registry system. The position was sold on these execution issues over the quarter. Sunny Optical was down -16.8% despite H1 net income coming above expectations, the company cited however overseas pandemic impact on its shipments as well as slowing domestic smartphone demand.

Portfolio Activity and ESG

- Over the third quarter of the year, the team exited the position in Stoneco after it faced underwriting and execution missteps in lending that wiped out more than a quarter's worth of earnings. Moreover, while the growth in transactions remains on track, Stoneco's lending business appears less promising than previously assumed. The position in ITM Power was also sold in Q3 given unfavorable economics in the key joint venture with Linde and steady downgrades in revenue expectations for 2022 and 2023.
- ESG considerations are fully integrated in each step of the fundamental investment process with a focus on a lower carbon footprint objective. At the end of September 2021, the portfolio had a lower carbon footprint than its benchmark with 25.4 T CO2/\$m sales vs 154.6 for the MSCI AC World index. The portfolio continues to be aligned with the Paris Agreement's long-term temperature goal of keeping the rise in global average temperature to well below 2 °C above pre-industrial levels, as reported by ISS Climate Impact Assessment.

Outlook

- The Global Equity strategy remains well positioned focusing on companies with solid and visible earnings growth over the medium term, which should start building positive relative momentum in a more volatile and desynchronised growth environment following the strong recovery seen over 2021.

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