

UBAM – TECH GLOBAL LEADERS 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 2023. Driven by a strong start of the year with receding recession fears and overall easing inflation prints, 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%.
- Major central banks maintained their tightening stance announcing rate hikes during the month of March, confirming their confidence in the resilience of the banking sector. Balancing between price stability and financial stability, 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 falling to 0.2% for global equities (-0.5% for Europe) at the end of March as the tensions in the banking system again 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. Helped by declining energy prices, the US headline inflation eased to 5.6% yoy for the end of March, with the Eurozone yearly inflation trend also slowing to 6.9% for March. The US Manufacturing PMI came in slightly higher in March at 49.2 vs 47.3, with sentiment increasing on production and employment. The Eurozone Manufacturing PMI came in slightly lower for March at 47.3 vs 48.5 for the prior print, but better than the 47.1 expected, with sentiment decreasing on production, new orders, and exports.
- Over Q1, IT, Consumer Discretionary and Communication Services were the best contributing sectors to the MSCI AC World's performance whereas Health Care, Energy and Financials were the main detractors. Top contributing names over the period were Apple, Microsoft and Nvidia while Pfizer, UnitedHealth and Johnson & Johnson were at the bottom. Growth and Quality were the best performing investment styles over the quarter, while Momentum and Value styles underperformed the broader MSCI AC World index. The 2023 earnings growth expectations for Value stocks stood at -2% vs +9% for Growth stocks.

Performance Review

- UBAM - Tech Global Leaders Equity delivered +17.4% in gross performance in Q1 2023 versus +7.3% for the MSCI AC World. The MSCI AC World Information Technology index gained +20.4% over the period, largely outperforming the global equities universe.
- Over the first quarter of the year, the biggest contributors to performance were the overweights in Nvidia, Advanced Micro Devices and ASML (+188bps, +91bps, +81bps respectively). Nvidia gained +90.1% as it is seen as the main beneficiary of AI developments by many. The company also announced results and guidance that topped expectations. Advanced Micro Devices was up +51.3% after reporting Q4 results that beat expectations and despite maintaining conservative guidance for Q1 2023. ASML rose +26.6% over the period as the company reported a solid set of results ahead of expectations, with a positive outlook for 2023 driven by the chip market rebound expected for the second half of the year and margin improvements.
- The main performance detractors in Q1 were the overweights in Keysight Technologies, Nasdaq and the absence of exposure to Tesla (-61bps, -60bps and -37bps respectively). Keysight Technologies lost -5.6% over the period. While reporting earnings that beat estimates, the company disappointed on its guidance, which reflected some weakness in orders for the near term. Nasdaq lost -10.7% after reporting earnings that came in below consensus in a difficult Q4, with expenses being guided higher related to discretionary investments, and revenues being guided lower for the near term. Despite this mixed release and guidance, Nasdaq remains well-positioned for the medium to long term with a diversified set of capital market solutions and services. Tesla gained +68.4% in Q1 as the company reported better than expected results for Q4 despite a sharp drop in vehicle profit margins on lower pricing.

Portfolio Activity and ESG

- Over Q1, the team entirely exited the position in Dassault Systemes as their mid-term financial targets were seen as overly ambitious. On the other hand, the team initiated a new position in Cap Gemini as the company's new management executed well over the past twelve months, showing better growth than peers. A new position was also initiated in Cadence Design Systems, which is delivering on strong results and is proving to dominate the global chip design market with its software offering.
- ESG considerations are fully integrated in each step of the fundamental investment process with a focus on a lower carbon risk objective. At the end of March 2023, the portfolio had a AAA rating with 9.2 quality score versus AA and 7.9 respectively for the MSCI AC World, as well as a lower weighted average carbon intensity than the benchmark with 13.5 tons of CO2/\$m sales vs 149.6 for the MSCI AC World index

Outlook

- Despite some volatility and headwinds during the first quarter of the year as well as further downgrades to the global earnings picture, global equities have gained +7.3% in performance. 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, where over 10% EPS growth and reasonable valuations still provide attractive investment opportunities. The Tech



Global Leaders Equity strategy continues to focus on companies with visible earnings trajectories, which are expected to deliver strong performances as the market looks towards 2024 earnings and GDP growth momentum.

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