Q3 2023

UBAM – MULTIFUNDS ALLOCATION RESPONSIBLE INCOME

Quarterly Comment | Q3 2023

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

- The third quarter of 2023 saw a pullback in global markets with most asset classes, including global equities and bonds, ending the quarter in negative territory. The only exceptions were commodities and High Yield (HY). Equity and bond volatility increased during the quarter, although only moderately. Developed Market (DM) equities were down -3.4% in Q3, keeping the YTD gains well into double digits (+11.6%), while Emerging Markets (EM) lost -2.8% in Q3 and settled at +2.2% YTD. In DM, the Japanese market was one of the few in positive territory in local terms (+2.5% in Q3, +25.7% YTD for the Topix). The weakening of the JPY vs major trading partners (-12.5% vs USD YTD) continues to be a tailwind. The other positive outlier in Q3 was the UK market, supported by the relatively good performance of energy stocks. In the US, the S&P 500 was down -3.3% in Q3 and is up +13.1% YTD. In terms of styles, value (-1.7%) outperformed growth (-4.9%) over the quarter, which only modestly reduced the YTD gap which sees growth still outperform value by a large degree.
- In Fixed Income, DM government bonds, EM Debt and investment grade were down, negatively impacted by the rise in bond yields. On the bright side, HY managed to be in positive territory, thanks to the high carry and the shorter dated profile the asset class is exhibiting, spreads remained stable over the quarter. On the other end, inflation linked securities were the most negatively impacted by the slow-down in inflation data. The focus of fixed income investors, which had been focused on the level of peak rates, has now started to switch to how “higher for longer” rates will affect the economy and fiscal sustainability. On the economic front, the sharp rise in oil prices in Q3 constituted the main headwind and increasing signs of a slowdown are impacting markets. The other interesting observation is that the correlation between stocks and bonds was once again positive in Q3. For asset allocators, this is a reminder that alternative strategies should be key to diversify against some of the risks the economy and markets are facing.

Sources: UBP, Bloomberg Finance LP.

All performance figures are given net of fees. Past performance is not a guide to current or future returns. See full disclaimer at the end of the document.

Performance Review

- The third quarter of 2023 saw negative absolute returns of -2.67% (USD, Institutional share class). Performance relative to the composite benchmark was negative over the quarter.
- Cash as a fixed income substitute and slight underweight equity had a negative impact on performance.
- Manager selection was negative within both buckets: equity and to a lesser extent fixed income.
- Inflation linked strategy within our fixed income bucket suffered over the quarter. Our Emerging debt was one of the key performance driver.
- With regard to equity allocation, manager selection in technology did hurt as our manager was not exposed to Nvidia due to valuation concerns.
- Our AI and Robotics manager selection contributed positively which did offset some of the underperformance of other more cyclical managers, in particular in Energy transition.

Portfolio Activity

- During the quarter, portfolio activity was low as preference was maintained to capitalise on a conviction-based portfolio.
- We slightly increased equity over fixed income.
- We increase quality style while slightly reducing other positions. Valuation have come down and we saw a good entry point.
- During the second quarter we increased our Fixed Income manager selection in EM, on the back of developed market uncertain macro picture.

Sources: UBP, Bloomberg Finance LP.

Outlook

- Markets continue to position for the expected higher-for-longer rate regime while the hard vs soft landing debate continues. Equity markets experienced their first negative quarter 2023 and volatility (VIX) returned to pre-summer levels.
- The global economy remains supported by a robust performance from the US where full employment and a savings pile from the Covid era continue to support the consumer-led economy. With the bulk of overvaluation in global equity markets accounted for by US ‘Big Tech’ and related artificial intelligence names, stock and sector selection opportunities should continue to emerge elsewhere, justifying a broader diversification across sectors and regions.
- Yet a positive outlook remains restricted by the actions taken by global central banks even if we are entering the end of this raising cycle. Furthermore, the savings pool is dwindling. We would expect a lag in terms of the impact of these moves on the real economy. Market commentators are laser-focused on what kind of landing these measures will usher in.
- From the point of view of equity investors, concerns should centre on an ability to grown the top line, margins and profits whilst end demand appears to be leading to volume stagnation. As we enter into an election cycle in the US and UK in 2024, we can expect a lot of headline grabbing noise. The Chinese government is equally attempting a tricky navigation of a slow patch in economic growth as the property and construction bubble deflates. This is having a broader impact on the whole Asian region and indeed into the manufacturing heart of Europe, in particular in Germany. In the case of China, this backdrop has already been embedded in stock performance. At present, consensus expects 5-10% earnings growth for developed markets in 2024 and with the average stock actually lower than at the start of the year, there is evidence of good value emerging in stock markets, however, we do not expect a sharp rebound and we remain cautiously positioned for the time being.

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