Q4 2022

UBAM – MULTIFUNDS SECULAR TRENDS

Quarterly Comment | Q4 2022

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Fund classification under Sustainable Financial Disclosure Regulation (SFDR):

UBAM – Multifunds Secular Trends: Article 8

Market Comment

- After two consecutive months of relief rallies, global equity markets gave back some gains and ended December in the red. The last quarter of the year was nevertheless positive for major equity markets. The MSCI AC World ended Q4 up +9.8%, with +9.7% gains for Emerging Market equities, +9.6% for European Equities, +7.6% performance for US equities, +4.3% for Swiss equities and +3.3% for Japanese equities. This brought the full yearly loss for global equities down to -18.4%, the biggest annual loss since 2008.
- US inflation moderated again in November with +0.1% m/m increase versus +0.3% expected and +0.4% increase in the prior month. The yearly headline trend also declined from +7.7% y/y to +7.1%, while core inflation eased more moderately from +6.3% to +6.0%. The Fed remained attentive to inflationary risks and raised rates by 50bps in December. Business confidence declined in December with the US ISM Manufacturing coming in below 50 at 48.4. US GDP figures were nevertheless revised up for Q3 from +2.9% q/q SAAR to +3.2%, supported by firmer private and public consumption. Eurozone Q3 GDP figure also came in better than expected at +2.3% q/q, reflecting resilient post-pandemic household consumption and tourism. The ECB increased key rates by 50bps in December, with a hawkish tone on inflation trends.
- The fourth quarter of 2022 was characterized by a further slowdown in global growth and emerging signs of peaking inflation across developed economies. Weaker demand along with reduced energy prices and further improvements of supply chains have enabled some easing in global price pressures. According to the latest PMIs, both input and output price pressures started to ease recently, albeit remaining elevated by historical standards. Despite the positive news on the prices front, inflation remains well above central bank targets. Core inflation is expected to continue to remain robust throughout next year, largely supported by service prices (resulting from wages and rents). We still believe that the impact of tighter monetary policy on the real economy has yet to be seen across developed countries. Global leading indicators are pointing to a deteriorating economic outlook, while global purchase manager indices have been in contractionary territory for several months now. Hard data has so far been resilient, but the weakness seen in surveys is expected to emerge in real economy indicators. Although several developed economies are on track to experience economic contractions in subsequent quarters, global growth is still expected to be positive in 2023.

Sources: UBP, Bloomberg Finance LP.

Performance Review

- During Q3, the fund returned 10.13% versus 9.76% for the MSCI AC World Index net of fees (Institutional share class).
- Manager selection was positive over the quarter whilst theme allocation was only slightly negative over the quarter (Environment and Information Technology).
- Structural and marginal cash allocation was detrimental.
- Our manager selection on aging population and environment contributed very positively.

Sources: UBP, Bloomberg Finance LP.

Portfolio Activity

- While remaining wary of valuations, overall uncertainty surrounding war in Ukraine and inflation pressures prompted us to reduce overall exposure to highly valued stocks.
- Following an important team change in one of our Asian tilted manager we sold out of this fund and reallocated to a broader Emerging Market solution.
- During the fourth quarter we made no other significant change to the portfolio.

Sources: UBP, Bloomberg Finance LP.

Outlook

- By focusing on the underlying medium to long term defensible value creation potential, strategy is well positioned to capture structural performance opportunities despite 2023's uncertainties. The defensive characteristics of the portfolio, which have been reinforced in Q4 2022, are expected to provide investors with better visibility as global market dynamics change from valuation compression to earnings downside risk.
- After turbulent markets in 2022 driven by inflation pressures and valuation compression, 2023's expectations are starting to reflect downward earnings revisions that could lead to an extended period of volatility into the new year. An active investment approach should protect investors from the lower quality part of the market with more downside risk for earnings and where performance is generally more dependent on macro-economic tailwinds, such as rising oil prices and interest rates which are expected to be less supportive in 2023
- In the United States, the impact of tighter monetary policy on rate sensitive sectors increased in the last quarter of 2022. The housing market downturn intensified while goods demand weakened further. Households have used savings accumulated during the pandemic and this has kept sales robust throughout most of the quarter, although these savings have now diminished. Labour market conditions however remain extremely tight by historical standards, preventing a sharp contraction in services demand. That said, signs that employment conditions are easing are arising via employment leading indicators including average hours worked, which continue to weaken. Looking ahead, the combination of weaker economic activity weighing on labour demand and wage growth suggests greater weakness in goods and services demand in the coming quarters. Higher rates will also limit construction and investment keeping any economic growth subdued for some quarters. On the prices front, goods inflation has started to come down on the back of weaker demand and improved supply. Services inflation remains strong supported by rents, but overall core price pressures are easing and heading in the right direction. There is a good chance that a rising unemployment rate coupled with slowing rent inflation will provide some more meaningful relief to prices towards the second quarter of the year.
- From a monetary policy perspective, 2022 ended with key central banks appearing to be at contrasting stages in their respective tightening cycles. For example, whilst the Fed appeared to be guiding markets towards an end in its hiking cycle in the coming months based on their latest dot plot projections, the ECB indicated that their tightening is far from over, whilst the BoJ has yet to normalize policy at all. Starting with the Fed, their December meeting shortly followed the second consecutive downside surprise to US CPI, which all but confirmed their decision to step down the hiking cycle pace to 50 bps from 75 bps previously
- In the Eurozone and the United Kingdom, the economic outlooks look gloomier. Price pressures are starting to show some signs of easing, mainly on the energy price front, but remain extremely high and continue to weigh on real incomes and consumer spending. However, it is not just about energy. In contrast to what observed in the United States, signs of easing core price pressures are missing in Europe. What's more the labour market remains tight keeping wage growth robust.

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