



# UBAM - SWISS EQUITY

## Quarterly Comment

### Marketing Communication

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### Market Comment

- Over Q3 2023, most global equity markets ended in the red with the MSCI AC World down -3.4%. Swiss equities lost -3.3%, US equities -3.3%, Emerging Market equities -2.9% and European Equities -2.1% while Japanese equities gained +2.4%. The SPI Extra lost -5.7%, bringing its YTD performance to +3.7%, versus +4.6% for the SPI and +10.1% for the MSCI AC World (performance in local currencies).
- In the US, inflation came in as expected in August with the yearly CPI trend rising to +3.6% y/y due to volatile energy prices and resilience in core inflation. The Fed did not change its key rates, although they suggested that a further increase may happen before year end. In the Eurozone, CPI and core CPI yearly trend slowed to +5.2% y/y and +5.3% y/y respectively. The ECB raised interest rates by +25bps and indicated that while a peak might have been reached, interest rates would probably stay elevated. As for business confidence, the US manufacturing PMI increased from 47.6 to 48.9 in September. In Europe, the manufacturing PMI remained stable at 43.4 compared to 43.5 in August but is still well below the 50 mark.
- The September earnings revision ratios remained in positive territory for developed markets, just above zero in Europe, but higher for Japan and US equities. 2023 EPS growth projections for global equities have remained very close to 0% since February, with current bottom-up forecasts at -2% for Europe (but +3% ex-energy) and at +1% for the US. Over the last month, the global equities' 12m forward PE continued to edge lower to 15.6x, just below its long-term average, still with large differences between regions. For instance, Europe and EM are trading at around 12x while the US stand at nearly 18x. Earnings growth expectations stand at a solid +7.8% for 2023 and +9.6% for 2024 for Swiss equities, trading at 16.9X PE ratio, the lowest level this year.
- In Switzerland, the SNB left interest rates unchanged at 1.75%, indicating that the level should be sufficiently restrictive given the outlook on inflation. The yearly inflation trend remained stable in September at +1.7% y/y, and PPI-import prices were down by -0.2% m/m. The leading KOF indicator slightly dropped from 96.2 to 95.9 at end of September. Business sentiment continued to recover however from depressed levels with the PMI Manufacturing increasing from 39.9 in August to 44.9 in September.
- In Q3, Financials were the largest contributors to the SPI's performance, while Healthcare and Consumer discretionary were the largest detractors. In terms of individual names, UBS, Novartis and Partners Group were the best contributors, whereas Richemont, Roche and Nestlé were the largest detractors.

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## Performance Review

- UBAM - Swiss Equity delivered -3.9% in gross performance over Q3 2023, versus -3.3% for the SPI. Stock selection detracted from relative performance (-1.3%), particularly in the Healthcare and Materials sectors. Sector allocation contributed positively (+0.7%), especially the overweight in Financials and the underweight in Consumer Discretionary. YTD, the fund has accumulated +3.7% in gross absolute performance vs +4.6% for the SPI.
- During Q3, the biggest contributors to relative performance were the underweights in Richemont and Roche as well as the overweight in Partners Group (+44bps, +26bps and +25bps respectively). After a strong start to the year, Richemont was down -23.9% in the third quarter. The company's share price fell after reporting lower than expected sales results in July. It was also affected by a lower sentiment for the luxury sector given the weaker Chinese outlook. The underweight in Roche contributed positively with its share price down -8.4%. The company, as previously communicated, witnessed the expected fall in revenues from COVID related applications mainly in their diagnostics division, but also selectively in their pharma division. Indeed, the whole sector was affected by the clearly communicated reduction in exceptional pandemic related revenues. Partners Group gained +22.9% during the quarter after posting a positive update on its asset under management and reiterating its fundraising plan, offsetting the cautious views of the market. The company also reported revenues above expectations mainly coming from performance fees.
- The main detractors to relative performance over the period were the underweight in Novartis as well as the overweights in Lonza and Georg Fischer (-38bps, -31bps and -25bps respectively). Novartis gained +4.3% in Q3, as its share price rose after earnings beat expectations on both sales and profits. The company also raised its guidance and announced a USD 15bn buyback program. Lonza lost -20.2% during the quarter as the company cut its core EBITDA margin guidance for 2023 after posting weak results for H1. Furthermore, the unexpected departure of the CEO by the end of September was badly received by the market. Georg Fischer dropped -23.1% after reporting H1 earnings that missed estimates, showing a sign of slowdown in order intake and reflecting some uncertainty around potential capital measures to finance the integration of Uponor.

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## Portfolio Activity and ESG

- In Q3, the team initiated a new position in Swiss Re given the strong pricing environment and easing inflation levels which favor the reinsurance industry. The position in Zurich Insurance was reduced following a deteriorating outlook for its US business, notably Farmers; and the proceeds were used to finance Swiss Re. The team added a position in Siegfried financed by the reduction of Lonza following strong operational momentum at Siegfried, as its new production sites ramp up and offer interesting opportunities. On the other hand, Lonza, a long-term conviction, currently offers somewhat weaker visibility. A position in Aryzta – producer and retailer of specialty bakery products – was also initiated given their strong volume and margin progress, together with industry-leading cost control. Several semiconductor related names such as VAT, Comet, Inficon and even Georg Fischer (whose specialized piping solutions are used in fabs) were reduced over the quarter. This comes on the back of some hesitancy regarding



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short term performance in view of the delayed turnaround in semiconductor equipment which affects suppliers to the industry. The position in Barry Callebaut was sold given poor operational delivery despite decent market demand. The position in Komax was also sold on the back of a worsening automotive outlook.

- At the end of September 2023, the portfolio had an ESG Quality Score of 7.8, with a AA rating versus 7.9 for the SPI and a AA rating (based on MSCI ESG Research ratings). The Swiss Equity portfolio follows a strict exclusion policy. It does not hold any position identified as being in violation of international standards by both data providers MSCI ESG Manager and Sustainalytics. The portfolio has a weighted average carbon intensity that is 71% lower than its benchmark, with 22.8 tons of CO2/\$m sales vs 77.6 tons of CO2/\$m sales for the SPI.

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## Outlook

- Commodity related sectors as well as healthcare names have dragged global EPS growth expectations into slightly negative territory for the full year 2023. The team sees an attractive opportunity to maintain exposure to Swiss equities given their current valuation levels and resilient and visible earnings picture, combined with Switzerland's advantageous macroeconomic positioning. While the gap between the expected EPS growth of the Swiss market vs. global equity markets has been increasing since the beginning of the year, this has not yet been reflected in the Swiss market's relative performance, which provides some upside potential for the remainder of the year, also supported by structural growth drivers.
- The Swiss Equity Strategy continues to focus on the bottom-up selection of value creative names and is well positioned in the current environment. Firstly, the companies in which it invests have strong fundamentals: low debt levels, solid balance sheets and benefit from strong pricing power. After the deterioration of macroeconomic indicators over the summer, there is a strong argument for investors to return to companies with stronger fundamentals over the last quarter of the year. Moreover, an environment marked by higher interest rates and inflation levels that continue to be much above average levels observed in the past couple of years should be helpful for the companies with strong pricing power (a key component in the creation of value). Secondly, the strategy offers exposure to a selection of leading Swiss small and mid-cap companies that benefit from structural growth drivers and are thus less dependent on the global macroeconomic environment. Oftentimes, these companies have exposure to growth markets and benefit from high entry barriers linked to strongly innovative products and services.



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