UBAM – US EQUITY GROWTH

Quarterly Comment

For Professional Investors in Switzerland or Professional Investors as defined by the relevant laws

UBP Asset Management LLC (the "Manager"), a U.S. based subsidiary of Union Bancaire Privée, UBP SA, serves as the Investment Manager to UBAM – US Equity Growth.

Market Comment

- The S&P 500 N.R. finished the quarter in positive territories with +12.01% performance at the end of December. Value has been outperforming blend stocks this quarter with a performance of +16.05%. Growth delivered a positive performance as well over the same period with +11.32%. Sector wise, energy with +23.05%, financials with +22.49% and communication services with +15.23% have been outstanding. Real estate delivered the worst sector performance with +4.87%, followed by consumer staples with +5.37% and utilities with +6.16%.

- October saw a rise in volatility on equity markets, which were down for the second month in a row on the back of Covid-19 infections rocketing on both sides of the Atlantic. The publication of Q3 GDP data provided reassurance about economies' ability to recover. In the United States, Q3 growth was up 33% (annualised) and confidence in the manufacturing industry remained upbeat. Consumer spending, which had previously put the wind in the sails of economic activity, remained solid, as did household confidence, even though there was no major renewal of job-support measures, as the chaotic negotiations between the Republicans and the Democrats had collapsed before the presidential election.

- In November, the great news about the effectiveness of the COVID-19 vaccines under development has opened up the prospect of a faster-than-expected return to normality, thus greatly benefitting the most cyclical asset classes. In the United States, on the back of coronavirus outbreaks and local restrictions, economic indicators showed that the peak in industrial activity and confidence had already passed, but that they were nonetheless in good shape. In contrast, retail sales and household confidence have declined. The results of the presidential elections showing a Biden win were marred by objections, which sowed seeds of doubt across the country.

- In December, with the approach of the new year, several uncertainties receded and equity markets reached new highs. In the United States, economic activity numbers were mixed over the month due to weak consumer spending, a fall in household confidence, and reduced job creation, even though unemployment continued to fall (reaching 6.7%). Admittedly, industrial activity in November showed more resilience, but services confidence dipped in December. Until the end of the month, political uncertainties dominated the headlines due to wrangling over new budget measures (Congress eventually approved a USD 900 billion package) and the rise in the number of COVID-19 cases stoke fears among economic stakeholders, despite vaccines being rolled out. Elsewhere, the US Federal Reserve linked its asset-purchase strategy to the improvements in employment and the rebound in inflation, but it did not go into any more detail; it did not increase the amounts being bought, nor the duration of the purchase programme.

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

- In the third quarter 2020, the fund* returned net +7.69%. The fund benchmark changed during the quarter and has been the MSCI USA Growth Net Return from 31.10.2020 (included). Prior to that it was the Russell 1000 Growth Net Return.
- In October, the fund net performance -3.64% was relatively close to its previous benchmark, the Russell 1000 Growth Net Return, -3.41%. In November and December, the fund delivered net +11.75% versus +15.87% for the MSCI USA Growth Net Return Index, corresponding to a difference of -4.11%. This underperformance was mainly due to stock selection.
- The largest detractor in November and December was the stock selection within Consumer Discretionary (-1.47%). Not owning Tesla caused 138bps of underperformance. This stock is a benchmark holding and was up 81.85% in November and December.
- Stock selection within Information Technology (-1.43%) has also been challenging. This underperformance can be explained mainly by the fund investment in Salesforce.com and Microsoft, both positions lagged their respective sectors, but also by the underweight of Apple.
- On the positive side, the selection within financials delivered +0.21% and in consumer staples +0.20%.
- The largest contributors included JP Morgan (+29.61%) and Honeywell (+29.56%) along with not owning Thermo Fisher Scientific and Zoom Video Communications which were down during the last 2 months.
- Sector allocation also slightly negatively affected the fund in November and December (-0.21%). The biggest impact came from the fund's overweight in Real Estate (-0.55%) which is the result of strong convictions in selected growth stocks like AMT and Equinix, which are characterized as REITS and operate in conjunction with the telecom and cloud computing technology sector.

Portfolio Activity

- The fund exited several positions in the fourth quarter including Hexcel, Yum Brands, Cerner and Citibank. After its terminated merger with Woodward earlier in the year and the slowdown in air transport from the virus, Hexcel's continued to be hampered by lower expected new build expectations from the airline industry and less robust growth expectations going forward, so the fund managers decided to exit the shares. Given the strong performance in Yum Brand's stock and slow and delayed expectations for its Pizza Hut turnaround, the fund took the opportunity to exit Yum shares. The managers excited Citibank and Cerner as they both showed moderating growth prospects relative to expectations and so they redeployed the capital toward better growth prospects.
- During the fourth quarter, the fund increased portfolio positions sizes in Apple, Alphabet and Facebook. Alphabet and Apple both reported extremely strong third quarter earnings which helped drive share price outperformance. Facebook's stock lagged the market, up only 4% in the quarter and the managers took advantage of this weakness to add to the position.
- The fund's weightings declined slightly in JP Morgan, Equinix, Mastercard and Ecolab. On the heels of Covid19 vaccination approvals and a Biden victory, JP Morgan's stock rose 33% in the quarter and the managers took advantage of this strength to slightly trim the position size. Equinix, Mastercard and Ecolab all underperformed in the quarter, causing the fund weighting to decline. The managers did trim these shares as well.

Sources: UBP, Bloomberg Finance LP.

** Class IC, USD net of fees*

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Outlook

- Downside risks weigh on Q4 growth in several countries due to rising contagion and pressure on hospitals; European activity should contract in Q4, and a parallel slowdown is expected in the US, while Chinese growth remains on a rising trend.

- Despite this, a 2021 sustained recovery is still expected, driven by the US, China and Germany. Vaccines should boost the global economic outlook once deployed and contribute to a more sustained medium-term trend.

- Economic policy is expected to remain highly supportive, even with the arrival of vaccines. More budgetary support is expected from the new US administration, initially extending measures in favour of labour, health and local states.

- In the US, activity is losing momentum in Q4, particularly in consumer and services sectors. Nevertheless, Q4 GDP growth should remain positive, in a 1.5%-4% range, and a progressive rebound is expected in H1-21 thanks to more visibility on politics and lower constraints from the pandemic.

- After the announcements of much better-than-expected Q3 earnings across the globe, revision ratios moved into positive territory in all regions, with the US again well above other markets, back to the same level as after the Q2 reporting season.

- With the rising probability of seeing an effective vaccine being distributed by mid-2021, the downside risk to global 2021 earnings has clearly receded. Upgrades are even likely for the sectors which have been most impacted by the virus like energy, financials as well as travel & leisure even though profits in these sectors will not get back to their 2019 levels before 2022 at the earliest.

- With the recent rally, equity valuations are back close to a near two-decade high. Consequently, earnings will be the key driver of equity markets in 2021. Valuation multiples are likely to move lower, but this should be more than offset by the expected earnings recovery.

Sources: UBP.

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