UBAM - GLOBAL FINTECH EQUITY

Quarterly Comment

Marketing Communication
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Market Comment

- Supported by optimism around a softer landing in the US, the AI hype and soon to come interest rate cuts, equity markets continued their climb in Q1 2024, with many of the main indices making new all-time highs. In March, performance drivers started to broaden with energy and banks contributing positively, as investors were looking for attractively priced areas of the market away from the diverging “Mag 7”. The MSCI AC World rose +8.1% over the quarter, with Japanese equities up +17.3%, US equities +10.6%, Swiss equities +6.0%, European equities +7.6%, and Emerging Market equities +2.1% (performances as of 28.03.2024, in local currencies).
- US GDP growth for Q4 23 came in slightly above estimates at 3.4% qoq but showed some slowdown from the previous quarter. Activity is expected to moderate in Q1 2024, but average growth for the full year should remain in a 2%-2.5% range after 2.3% in 2023. This would support the soft-landing scenario as US consumers continue to benefit from a tight employment market. The US Fed announced no change in key rates during their March meeting, as inflation remained elevated coupled with solid activity and strong labour indicators. The US yearly inflation trend increased for end of February from 3.1% to 3.2%. In a similar move, the ECB kept interest rates unchanged in March and cut its 2024 inflation forecast to 2.3%. The yearly headline inflation print for the Eurozone fell slightly in February, but core inflation remained above 3% yoy. The manufacturing PMI for the Eurozone came in better than expected at 46.1 for March, with less pronounced negative business sentiment and improving confidence about the economic recovery.
- At the end of the quarter, EPS growth expectations for US equities stood at 10% for 2024 compared to 9% for global equities, with valuation edging slightly higher to 20.9x fwd PE ratio vs 17.9x for the MSCI AC World. This rerating continues to be mainly driven by the large cap US tech companies, that are still gaining in weight in the indices, and boast high profitability and earnings growth. Nevertheless, the dominant “Mag 7” trade continued to show divergences with Tesla and Apple posting losses YTD.
- The Fintech thematic had a strong Q1 with the Global X Fintech ETF delivering a return of 9.0% vs. 8.1% for the MSCI AC World. Coinbase, Adyen and Fidelity National Information Services were the biggest contributors to relative performance vs. the MSCI AC World, whereas Affirm, SoFi Technologies and Nexi were the biggest detractors.

All performance figures are given gross 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 Q1 2024, UBAM - Global Fintech Equity delivered +7.3% in gross performance versus +8.1% for the MSCI AC World and +9.0% for the Fintech thematic (Global X Fintech ETF).
- The main contributors to relative performance versus the benchmark over the period were the absence of exposure to Apple, the exposure to Nu Holdings and the overweight in Adyen (+89bps, +73bps and +60bps respectively). Apple lost -11% YTD despite reporting results ahead of expectations. The company revealed however lower sales figures in Greater China amid concerns of more competition in the key market. The flat guidance for the following quarter also weighed on investors' appetite. Nu Holdings was up +43% as it delivered good Q4 2023 results and sees continued healthy deposit growth in its key expansion market Mexico. Adyen's share price gained +34% as the company delivered very strong H2 2023 results and announced several major new merchant wins.
- The main performance detractors over the quarter were the absence of exposure to Nvidia as well as the overweights in S&P Global and Nexi (-133ps, -75bps and -64bps respectively). Nvidia climbed +82% YTD after the company delivered better than expected results and issued a positive outlook for Q1 2024, putting aside supply chain and growth slowdown concerns. S&P Global was down -3% over the quarter as Q4 margins came in lower than expected and the company's 2024 guidance was a bit light vs. consensus. Nexi dropped -21% over the quarter as the company reported mixed Q4 2023 results and recast its medium term guidance.

Portfolio Activity and ESG

- Over Q1, the team reduced its positions in Corpay and WEX, taking some profit after strong performances since the beginning of the year. In addition, the two positions made up close to 10% of the fund and are exposed to similar drivers as they both provide payment processing and information management services to the commercial and government vehicle fleet industry.
- 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 2024, the portfolio had an A ESG rating with an ESG quality score of 6.7, versus an A rating and 6.8 score for the MSCI AC World (ratings based on MSCI ESG Research). The portfolio's weighted average carbon intensity is much lower than the wider global equities universe with 6.2 tons CO2e/$m sales vs 118.2 tons for the MSCI AC World index.

Outlook

- Given the prevailing market concentration levels particularly around US tech names, investors should factor in the risks of a negative market surprise linked to geopolitics and elections, interest rate moves or AI results. After 0% EPS growth delivered in 2023, the highly anticipated first earnings season of the year could bring some volatility, especially around names with extended valuation levels. We believe that investors should privilege active bottom-up strategies exposed to diversified sources of performance.
- While the Global Fintech Equity strategy clearly remains a higher beta investment, its bottom-up selection of companies with proven business models and strong fundamentals offers visible growth and value creation and could be used to diversify a tech sector exposure or as an alternative to exposure to the traditional financial services sector, which is not leading the digital transformation. The team notably expects that continued innovation in the payments space combined with the increasing focus on fully digitised solutions in banking and insurance, as well as the rapidly growing interest in potential use cases for generative AI, particularly in cybersecurity, insurtech, and wealthtech, provide attractive opportunities for active stock selection. A revival of the recently lackluster IPO market could add to investor interest in the thematic.

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