UBAM - GLOBAL EQUITY

Quarterly Comment

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

- Major equity markets ended the first quarter of 2021 in the green with the MSCI AC World gaining 4.6%. European equities took the lead in Q1 with a return of 8%, followed by Japanese and US equities with 6.9%, Swiss equities with 5.2% and Emerging Markets with 2.5%.
- The year started with some volatility following concerns around the deployment of Covid-19 vaccines and the evolution of new variants of the virus. The start of the earnings season however revealed positive earnings momentum for cyclical sectors, including financials and technology. This trend was met by investor optimism for a gradual lifting of confinement measures as vaccination rates progress and was exacerbated by the promises of continued stimulus, which pushed Treasury yields and commodity prices higher and credit spreads lower. The consequential expectations for significantly accelerating global GDP growth led to a significant rebound of “beaten down” sectors like energy and metals & mining.
- Global equity valuations declined slightly to 19.4x 12-month forward PE ratio at the end of March, but continued to stay well above the long-term average of 15.7x. Earnings growth expectations rose back to 30% for 2021 as a result of an improving revenue outlook and strong cost management. However, 2021 earnings growth expectations still show divergences between regions with +26% for the US, +33% for the Eurozone, +18% for China and +37% for Emerging Markets.
- The Fed announced no change to its strategy in March and attributed the accelerating trend to higher long-term yields to the improving economic outlook, bolstered by the passage of the American Rescue Plan and progress on vaccinations. Expectations for US GDP growth for 2021 stood at 6.5% while the unemployment rate came in at 4.5%. The US manufacturing PMI has also reflected an improvement in sentiment increasing to 64.7 at the end of March, getting closer to historic highs. The rebound was broad-based, with production and new orders seeing the biggest uplift. The Eurozone manufacturing PMI also saw a rebound to 62.5, the highest level since 2017 with new orders strongly improving on optimistic views regarding future production.
- Over Q1 2021, all sectors of the MSCI AC World finished in the green with defensive sectors recovering over the month of March. More cyclical sectors like Financials and Industrials were the top performance contributors over the period, building on the sector rotation that started in Q4 2020.

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

- UBAM – Global Equity returned +1.6% in gross performance in the first quarter of the year vs +4.6% for the MSCI AC World. This underperformance was mostly driven by stock selection (-2.8%), particularly in Industrials, IT and Consumer Discretionary (-70bps, -59bps and -56bps respectively). Sector allocation was also a drag for performance, because of the overweight in Utilities (-25bps) and absence of exposure to Energy (-38bps) . Currency effect was however slightly positive (+47bps) given the absence of exposure to the Japanese yen, which has witnessed some weakeness against the US dollar in Q1.
- Over the first quarter of the year, the main contributors to performance were the overweight of Ashtead, United Rentals and Equitable Holdings (+52bps, +39bps, +35bps respectively), helped by the cyclical sector rotation. Ashtead was up more than 27% over the period as the company raised its guidance for the full 2021 year after reporting stronger than expected third fiscal quarter results. United Rentals share price appreciated 42% after its Q4 2020 results came in better then feared, with a 2021 guidance for a continuation of the recovery. Equitable Holdings was up more than 27% also after reporting better than expected Q4 results on all its business units.
- After an exceptional 2020 calendar year, which saw the following stocks more than double their share price, Stoneco, Sunrun and SolarEdge were the main performance detractors in Q1 (-59bps, -57bps, -40bps respectively). Stoneco dropped 27% over the period as its reported revenue results missed consensus estimates, the company expects however an acceleration in revenues and profits for 2021. Sunrun lost 12.8% after the company's reported loss per share came in below expectations, and this despite its guidance for an acceleration of growth in 2021. SolarEdge dropped 9.9% with other solar energy names' weakness linked to the fear of rising interest rates' impact on borrowing cost for solar projects. The company reported however a beat in earnings estimates for Q4 2020.

Portfolio Activity

- Over the first quarter of the year, the portfolio's cyclical exposure was increased by adding new positions in Caterpillar, Deere, GS, MS, Palfinger, Epiroc and Oshkosh and selling Enel, Air Liquide, Iberdrola, Linde, Nextera Energy, Merck & Co, American Tower against those. These transactions also led to a significantly lower carbon footprint for the portfolio that is now in line with the 2° C Paris climate agreement goals.
- ESG considerations are fully integrated in each step of the fundamental investment process with a focus on a lower carbon footprint objective. At the end of March 2021, the portfolio had a lower carbon footprint than its benchmark with 29.2 T CO_2/\$m sales vs 157.6 for the MSCI AC World index. The portfolio is aligned with the Paris Agreement's long term temperature goal of keeping the rise in global average temperature to well below 2 °C above pre-industrial levels, as reported by ISS Climate Impact Assessment.

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Outlook

- Investing in companies identified as having proven ability to create value (in the sense of CFROI spread), in a sustainable and repeatable way (with superior ESG and carbon footprint characteristics) is expected to continue delivering positive performance without the need to time the market or investment styles.
- The new and improved normal emerging post-pandemic will be accompanied by changing consumer and investor habits with an increased attention to ESG and especially climate change. Focusing on sustainable value creation combined with attractive ESG profiles, as implemented in the strategy should allow investors to navigate this new dynamic by offering exposure to long term structural trends while benefiting from global growth recovery themes.

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