U ACCESS (IRL) TREND MACRO

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

- Over the third quarter of 2021, DM equities, except for Japan, were broadly flat after September erased the quarter's prior gains, but still well into positive territory YTD. EM equities suffered, mainly dragged down by China following several negative news, including a) the authorities move to turn private tutoring companies into non-profit organisations and b) the deleveraging of the real estate sector generating fears of large property developers defaulting.
- Another major development during the quarter was Fed's announcement that it will soon begin to slow the pace of its asset purchases (tapering) and its outlook on interest rates, which they expect to increase to 1.75% by the end of 2024. Treasury yields increased as a result, particularly in September as inflation fears continued to increase due to supply chain issues and strong increases in commodity prices, both across the energy complex and in raw materials.
- The current market environment provides a very interesting set of opportunities for our U Access (IRL) Trend Macro fund, which offers access to diversifying risk drivers and exposures by seizing long and short investment opportunities across mainly interest rates, credit and currencies, both in Developed and Emerging Markets. It has historically shown a low correlation to traditional assets.

Sources: UBP, Bloomberg Finance LP, BofA Merrill Lynch

Performance Review

- For the third quarter of 2021, U Access (IRL) Trend Macro returned -0.56%, bringing YTD performance to +3.70% (Class B USD, net of fees). In terms of contribution by asset class, Credit was the only detractor to performance, while Rates led positive contributions followed by FX and Equity indices. Looking at performance by region, Emerging Market Corporate Credit and Asia were negative contributors while Developed Markets, EMEA and Latin America each provided positive contributions.
- The fund declined from falling bond prices in Emerging Market Corporate Credit (-403bps) and Chinese Quasi-Sovereign debt (-128bps). Re-opening a short position in US 30 year at the end of the quarter which we covered earlier in the quarter proved to be a little early and detracted from performance (-86bps).
- Short US front end of the yield curve (199bps) and 10Y rates (133bps) and German 10Y rates (48bps) provided positive performance in Q3. Long local rates in Egypt (49bps) continued to provide positive performance in the quarter.
- Year to date profits were harvested during the quarter as credits in Tunisia and Angola reached our price targets and we have closed both positions during the quarter.
- The hedges in CDX HY and EM Debt added 17bps in Q3. Meanwhile equity hedges and exposure to equity indices/ETFs added 29bps to performance during the quarter.

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.

Portfolio Activity

- Net credit exposure started the quarter at -22% and ended at -32%. Long credit exposure was slightly increased, primarily in Emerging Market Corporate Credit and Chinese Quasi-Sovereign Credit as pull backs created buying opportunities. An increase in CDX HY primarily drove the increase in short positioning as did a small increase in our short Emerging Market Debt index positions.
- New short positions in rates were started in Q3 in Polish 5Y and 10Y rates as well as in 10Y Bunds. We closed local long rates positions in Kenya and Mexico 2Y. Part of our China 1Y swap rolled off and we reduced exposure to Egyptian local rates as well as US 10Y rates during the quarter.
- While FX exposure remained flat from the beginning to the end of the quarter, we tactically used the euro and Swiss franc as funding currencies during the quarter. Only changes to exposures were a decline in Egyptian pound of an equal amount of which we started a long Russian ruble position during Q3.
- Hedges were increased during the quarter; an increase in CDX High Yield and Emerging Market Debt Indices as well as new hedge position in US equities.

Outlook

- We anticipate US growth will be 6% in 2021 and 4-5% in 2022. Job growth will continue to be strong as the pandemic wanes, Covid affected sectors rebound and unemployment benefits roll off. The Fed has given strong signals of a taper in February and the language around “transitory” inflation is changing in the direction of inflation being stickier. For three consecutive quarters, the Fed has raised its inflation forecasts. We think this will continue and that the Fed will begin hiking interest rates in H2-2022. Decent growth and inflation well-above the 1.7% average of the past decade will produce a US 10Y rate closer to 3%.
- China’s growth bottomed in Q3 and will pick up in Q4 on the back of recent easing in monetary and fiscal policies. Reserve requirements have been cut, mortgage quotas expanded, and banks have been asked to lend in order to ensure the property sector does not experience a credit crunch. We expect to see home sales rebound starting in November, credit growth (Total Social Financing) to accelerate and as a result Q3-2021 will represent a bottom in Chinese growth. Property sector spreads have been affected by the prior tightness of policy, but more recently by the incomprehensible default of a developer which chose not to pay. Markets (as is their norm) subsequently assumed EVERY developer would behave in a similar fashion. It will take a couple of months, but as markets see a recovery in home sales and that companies are not behaving in this arbitrary and short-sighted fashion, we expect asset prices to recover sharply.
- We continue to be interested in select Emerging Market local bonds with high real yields, hawkish Central Banks and strong Balance of Payments. These opportunities should benefit from currency appreciation and a decline in their high yields.

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