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

- The first quarter of 2021 was dominated by rising bond yields and the outperformance of value and small-cap equities. In terms of regions, Japan and Europe were the strongest equity markets in Q1 while Asia and EM underperformed. Chinese equities sold-off from mid-February until the end of the quarter, due to a combination of cyclical concerns, fears of policy tightening, increased regulatory/anti-trust pressure by domestic Chinese authorities and geopolitical tensions. Most commodities continued to rally in Q1.
- The main drivers of market action in Q1 were the large stimulus coming from various governments, the US in particular, and the progress on the Covid-19 vaccine rollout, fueling investor's optimism on global growth prospects. The size of the US stimulus package and the prospect of a large infrastructure plan, both unprecedented in size, also increased the prospects of higher inflation. Most fixed income markets suffered as a result, both in Developed and Emerging markets.
- 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 first quarter of 2021, U Access (IRL) Trend Macro returned +6.59%, (Class B USD, net of fees). In terms of contribution by asset classes; Rates and FX were contributors, while Equity hedges and Credit were slight detractors. Looking by regions, both Emerging Markets and Developed Markets were positive contributors.
- The fund benefited from rising interest rates in both Developed and Emerging Markets. Short US 10 year and 30-year rates and a US steepener position contributed +392bps in Q1.
- Long local rates with high real yields in Emerging Markets also drove performance in Q1. Long local rates in Ghana was the second-best performing trade during the quarter (+96bps). European Breakeven Inflation trades added 81bps in the quarter. The short Polish 5 year and 10 year rates contributed a total of 78bps in Q1.
- Emerging Market Corporate Credit added 65bps in the quarter. The investment team rotated out of the real estate developers and energy companies which reached their price targets and rotated into in other names within the same industries which were trading at lower prices. Angola rallied and added +46bps in the quarter. Angola continued to benefit from an improving oil price during the quarter.
- The hedge in CDX HY detracted -99bps from 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

- During the first quarter, the Rates exposure had the most activity as the team reaped profits in some positions and repositioned into better risk adjusted trades to continue to benefit from a global reflationary environment. The most notable changes were in the repositioning of the European Breakeven Inflation trade, shorting European and UK long term rates, adjusting Emerging Market short rate positions in a few countries and increasing the US rates short position.
- CDX HY hedges were reduced during the quarter as the team harvested profits in Angola, Ukraine and Emerging Market Corporate Credit. In the quarter, several long Emerging Market currency positions were closed at a profit. The team also started using other currencies than the USD as funding currencies for long emerging market currency exposure.

Outlook

- The US is entering peak growth and inflation in Q2 and it remains on track for a full reopening between this summer and in Q3 for most Developed Markets.
- We are experiencing continued, strong and pro-cyclical fiscal stimulus, especially in the US and the EU. The US has passed its $1.9 trillion COVID relief package bringing the total fiscal stimulus passed since the beginning of COVID to about 20% of GDP, and it is on track for an infrastructure package later this year. In Europe, we will see the first disbursement of the Next Generation fund. For the first time, the EU will have a pro-cyclical fiscal policy and (implicit) mutualisation of debt.
- Major central banks, led by the Fed, are explicitly looking to be “behind the curve” in an attempt to maintain easy money policy and prevent unexpected tightening of financial conditions.
- Oil dynamics remain bullish as reopening drives increased demand and supply remains constrained on OPEC+ discipline and long-term structural issues stemming from a lack of capital expenditures.
- Overall, this sets sets up a clear bear market in bonds with growth, employment, and inflation all moving significantly higher. As a result, the investment team believes that markets have not completely priced this in and interest rates can go much higher. Given the current macro fundamentals and the policy mix, a terminal rate of 2.5% should be viewed as a minimum objective, as the Fed’s own policy objective is to shift inflation expectations and outcomes higher. By committing to be behind the curve, the Fed is increasing the uncertainty of inflation outcomes for the future. All else being equal, this argues for a higher term premium than we have seen in the volatility suppressing QE era that started post GFC.
- The team remains positioned in its pro-reflation trades in developed markets and small open economies and higher inflation breakeven trades in the EU as the market is underpricing inflationary risks.
- In FX, near term drivers continue to support the USD and the team also likes specific idiosyncratic opportunities in local rates and fx. These long positions have have been selectively funded with FX other than the USD.
- Risks: a higher than expected inflation which causes the market to price in Fed tightening/tapering sooner and any unexpected negative developments from COVID.
- The team remains optimistic on the outlook for investment opportunities for the next 18 months as the world rebounds from last year’s COVID driven recession.

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