UBAM (CH) – SWISS EQUITY

Quarterly Comment

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Market Comment

- Over Q3 2023, most global equity markets ended in the red with the MSCI AC World down -3.4%. Swiss equities lost -3.3%, US equities -3.3%, Emerging Market equities -2.9% and European Equities -2.1% while Japanese equities gained +2.4%. The SPI Extra lost -5.7%, bringing its YTD performance to +3.7%, versus +4.6% for the SPI and +10.1% for the MSCI AC World (performance in local currencies).
- In the US, inflation came in as expected in August with the yearly CPI trend rising to +3.6% y/y due to volatile energy prices and resilience in core inflation. The Fed did not change its key rates, although they suggested that a further increase may happen before year end. In the Eurozone, CPI and core CPI yearly trend slowed to +5.2% y/y and +5.3% y/y respectively. The ECB raised interest rates by +25bps and indicated that while a peak might have been reached, interest rates would probably stay elevated. As for business confidence, the US manufacturing PMI increased from 47.6 to 48.9 in September. In Europe, the manufacturing PMI remained stable at 43.4 compared to 43.5 in August but is still well below the 50 mark.
- The September earnings revision ratios remained in positive territory for developed markets, just above zero in Europe, but higher for Japan and US equities. 2023 EPS growth projections for global equities have remained very close to 0% since February, with current bottom-up forecasts at -2% for Europe (but +3% ex-energy) and at +1% for the US. Over the last month, the global equities' 12m forward PE continued to edge lower to 15.6x, just below its long-term average, still with large differences between regions. For instance, Europe and EM are trading at around 12x while the US stand at nearly 18x. Earnings growth expectations stand at a solid +7.8% for 2023 and +9.6% for 2024 for Swiss equities, trading at 16.9X PE ratio, the lowest level this year.
- In Switzerland, the SNB left interest rates unchanged at 1.75%, indicating that the level should be sufficiently restrictive given the outlook on inflation. The yearly inflation trend remained stable in September at +1.7% y/y, and PPI-import prices were down by -0.2% m/m. The leading KOF indicator slightly dropped from 96.2 to 95.9 at end of September. Business sentiment continued to recover however from depressed levels with the PMI Manufacturing increasing from 39.9 in August to 44.9 in September.
- In Q3, Financials were the largest contributors to the SPI's performance, while Healthcare and Consumer discretionary were the largest detractors. In terms of individual names, UBS, Novartis and Partners Group were the best contributors, whereas Richemont, Roche and Nestlé were the largest 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

- Over Q3 2023, the portfolio delivered -3.5% in gross performance versus -3.3% for the SPI. Stock selection detracted from relative performance (-0.8%), particularly in the Healthcare and Materials sectors. Sector allocation contributed positively (+0.7%), especially the overweight in Financials and the underweight in Consumer Discretionary. YTD, the fund has accumulated +4.0% in gross performance vs +4.6% for the SPI.
- Over Q3, the biggest contributors to relative performance were the underweight in Richemont as well as the overweights in Partners Group and Accelleron (+61bps, +23bps and +17bps respectively). After a strong start to the year, Richemont was down -23.9% in the third quarter. The company's share price fell after reporting lower than expected sales results in July. It was also affected by a lower sentiment for the luxury sector given the weaker Chinese outlook. Partners Group gained +22.9% during the quarter after posting a positive update on its asset under management and reiterating its fundraising plan, offsetting the cautious views of the market. The company also reported revenues above expectations mainly coming from performance fees. Accelleron rose +11% in Q3 as the company reported solid H1 figures with 20% organic revenue growth, and confirmed its full-year guidance. The name was also added to the Stoxx 600 index in September.
- The main detractors of relative performance over the period were the underweight in Novartis, the overweight in Lonza as well as the absence of position in Logitech (-26bps, -20bps, -14bps respectively). Novartis was up +4.3% in Q3, its share price rose after earnings beat expectations on both sales and profits. The company also raised its guidance and announced a USD 15bn buyback program. Lonza lost -20.2% during the quarter as the company cut its core EBITDA margin guidance for 2023 after posting weak results for H1. Furthermore, the unexpected departure of the CEO by the end of September was badly received by the market. Logitech rose more than 20% after reporting better than expected results, the company nevertheless still saw a yoy revenue decline impacted by macroeconomic and consumer headwinds, which also weighed on the FY guidance.

Portfolio Activity

- In Q3, the team initiated a new position in Swiss Re given the strong pricing environment and easing inflation levels which favor the reinsurance industry. The position in Zurich Insurance was reduced following a deteriorating outlook for its US business, notably Farmers; and the proceeds were used to finance Swiss Re. The team added a position in Siegfried financed by the reduction of Lonza following strong operational momentum at Siegfried, as its new production sites ramp up and offer interesting opportunities. On the other hand, Lonza, a long-term conviction, currently offers somewhat weaker visibility. A position in Aryzta – producer and retailer of specialty bakery products – was also initiated given their strong volume and margin progress, together with industry-leading cost control. The position in Barry Callebaut was sold given poor operational delivery despite decent market demand. The position in Komax was also sold on the back of a worsening automotive outlook.

Outlook

- Commodity related sectors as well as healthcare names have dragged global EPS growth expectations into slightly negative territory for the full year 2023. The team sees an attractive opportunity to maintain exposure to Swiss equities given their current valuation levels and resilient and visible earnings picture, combined with Switzerland's advantageous macroeconomic positioning. While the gap between the expected EPS growth of the Swiss market vs. global equity markets has been increasing since the beginning of the year, this has not yet been reflected in the Swiss market's relative performance, which provides some upside potential for the remainder of the year, also supported by structural growth drivers.
- The Swiss Equity Strategy continues to focus on the bottom-up selection of value creative names and is well positioned in the current environment. The companies in which it invests have strong fundamentals: low debt levels, solid balance sheets and benefit from strong pricing power. After the deterioration of macroeconomic indicators over the summer, there is a strong argument for investors to return to companies with stronger fundamentals over the last quarter of the year. Moreover, an environment marked by higher interest rates and inflation levels that continue to be much above average levels observed in the past couple of years should be helpful for the companies with strong pricing power (a key component in the creation of value).

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