Q1 2024

UBAM - SWISS EQUITY

Quarterly Comment

Marketing Communication
For Professional Investors in Switzerland or Professional Investors as defined by the relevant laws.
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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 labor indicators. The US yearly inflation trend increased for end of February from 3.1% to 3.2%. EPS growth expectations for US equities stand at 10% for 2024, with valuation edging slightly higher to 20.9x fwd PE ratio. This rerating continues to be mainly driven by the large cap tech companies, that are still gaining in weight in the indices, and boast high profitability and earnings growth. Nevertheless, the dominant Magnificent 7 trade continued to show divergences with Tesla and Apple posting losses YTD.
- In a surprise move against most predictions, the Swiss National Bank lowered its key rate from 1.75% to 1.5% in March, as inflation stabilized well below its 2% target since June 2023. The manufacturing PMI for Switzerland came in higher than expected and the prior print, at 45.2, but still below the 50 level. Business sentiment had notably improved on production, new orders, and employment. The leading KOF indicator remained stable for end of March at 101.5, compared to 101.6 for the prior month. EPS growth expectations for Swiss equities still stand at 10% for 2024, with an 18.8x fwd PE ratio. Compared to 9% EPS growth expectations for global equities at 17.9x fwd PE ratio, and to US equities, Swiss equities continue to offer attractively priced investment opportunities for 2024.
- Over Q1 2024, Healthcare, Financials and Industrials were the best contributing sectors of the SPI, while Consumer Staples, IT and Utilities posted negative returns. In terms of single names, Lonza, Novartis and Richemont were the best individual contributors while Nestlé, Roche and Kuehne + Nagel 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 the first quarter of the year, UBAM - Swiss Equity delivered +8.3% in gross performance, versus +6.0% for the SPI. Stock selection, notably in Healthcare and Industrials, was the major performance contributor over the quarter. Sector allocation contributed positively as well, especially the underweight in Consumer Staples and the overweight in Financials.
- During Q1, the biggest contributors to relative performance were the underweight in Nestlé as well as the overweights in Lonza and Accelleron (+73bps, +47bps and +42bps respectively). Nestlé lost -1.8% over the quarter after posting Q4 organic sales growth below expectations as the world's biggest packaged food company continued to hike prices, prompting some shoppers to turn to competing products. In addition, the 2024 organic growth guidance came in at the lower end of consensus expectations. Lonza’s share price gained +52.7% as the company posted FY23 results above expectations and reiterated its 2024 and mid-term guidance. A proposed bill in the US that would prohibit federal funding of biotechnology equipment or services produced or provided by Chinese biotechnology service providers, as well as Lonza’s acquisition of the Roche Vacaville manufacturing site further lifted the stock over the quarter. Accelleron finished the quarter up +28.6%, as it saw a couple of analyst estimate upgrades and delivered FY23 results that beat on all items.
- The main detractors to relative performance over the period were the absence of exposure to Richemont and Holcim as well as the underweight in Novartis (-53bps, -43bps and -14bps respectively). After a muted start into the year Richemont’s stock changed direction mid-January, as the company reported stronger than expected holiday sales in the US and China, alleviating concerns over a cool down in demand for luxury goods. While the rally came to a halt mid-March on weaker Swiss watch exports and a broker downgrade, the stock still finished the quarter up +18.8%. Holcim’s share price appreciated by +23.7% as the company announced a spin-off of its North American business, delivered FY23 results as well as 2024 guidance above expectations, and announced a CHF 1bn share buyback. Novartis shares had a very strong January but then lost some ground as Q4 2023 results disappointed and the company issued rather conservative 2024 guidance. They still ended the quarter up +6.8%.

Portfolio Activity and ESG

- Over Q1, the underweight position in Julius Baer was sold on continued worries around the company’s compliance and risk management practices. The team also sold its remaining position in Bystronic as the weak order intake combined with the strong Swiss franc already led the company to reduce expectations for 2024 back in October 2023. Moreover, the recent surprise announcement of a CEO change is not expected to lead to a change in the group. The team completed the sale of Aluflexpack, on continued slowing sales momentum and high capital expenditure for the construction of a new factory. On the other hand, the team participated in the IPO of Galderma Group. Galderma is a leading dermatology company with a science-based portfolio of brands and services that span the full spectrum of the self-care dermatology market through injectable aesthetics, dermatological skincare, and therapeutic dermatology.
- The position in Tecan was reduced after preliminary figures published early January suggested that revenue expectations could be too optimistic for 2024, despite improved margin expectations. The position in Zurich was increased after management lifted its 2023-2025 EPS CAGR target to more than 10% from 8%.

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The company continues to execute well, notably Zurich's Farmers Insurance group which is the 3rd largest insurance group in the US.

- At the end of March 2024, the portfolio had an ESG Quality Score of 7.8, with an AA rating versus 7.6 for the SPI and an AA rating (based on MSCI ESG Research ratings). The Swiss Equity portfolio follows a strict exclusion policy. It does not hold any position identified as being in violation of international standards by both data providers MSCI ESG Manager and Sustainalytics. The portfolio has a weighted average carbon intensity that is 76% lower than its benchmark, with 22.6 tons of CO2/$m sales vs 95.6 tons of CO2/$m sales for the SPI.

Outlook

- Given the current 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 related results. We believe that investors should privilege diversified sources of performance for 2024, and Swiss equities are well positioned with a stable political and macro-economic backdrop, as well as a proactive central bank that has started the easing cycle.
- The team continues to see a favourable environment for Swiss companies in 2024, supported by the expected global GDP growth recovery and alleviating FX pressure on earnings after the SNB’s move to cut rates. The global recovery in trade and manufacturing, as well as continued reshoring activity, could provide a tailwind for the Industrials sector. The Swiss small and mid-cap space – with close to 30% exposure to the Industrials sector – should be poised to benefit from this dynamic, supported by attractive valuation levels relative to the larger market cap segment. The Swiss Equity strategy maintains its focus on visible levels of value creation, while also being exposed to attractive growth opportunities in the small and mid-cap space.

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