UBAM - SWISS EQUITY

Quarterly Comment

For Professional Investors in Switzerland or Professional Investors as defined by the relevant laws

Market Comment

- After a volatile first quarter, equity markets have rebounded strongly since March 2020, but most have not yet fully recovered from the recorded drawdown. Over the second quarter of 2020, markets rallied as economies started to reopen and central banks as well as governments mounted massive support programs. In addition, some promising early stage studies led to – potentially premature – enthusiasm about the development of a Covid-19 vaccine earlier than initially thought. This led to global equities gaining +19.2% over the quarter, with most regional markets also recovering: US equities were up close to 20%, followed by Emerging Markets equities with +18.1%, European equities with +12.6% and Japanese equities with +11.3%. As for Swiss equities, the SPI Index was up +9.9% while the SPI Extra ended Q2 2020 at +14.5%. Looking at the YTD performance, Swiss equities continue to show strong relative performance versus other global markets and this despite a strong Swiss franc. The SPI and the SPI Extra ended the first half of the year down -3.1% and -6.7% respectively, versus -6.1% for the MSCI AC World.
- Equity markets remained resilient despite an acceleration of the virus spread in the Americas towards the end of the quarter, which forced some US states to reverse re-opening measures. US and China tensions were also back to the headlines on the political and trade fronts. Short rotations into de-rated cyclical sectors and value names were recorded over the end of Q2 namely for industrials, airlines and retailers, as the US showed early signs of a consumer spending rebound. These rotations are expected to remain short lived as several headwinds persist including weak PMIs and labor markets along with negative EPS growth trends.
- At end of the quarter, global earnings growth rates were revised down to -19% for 2020 but are then expected to rebound sharply to 29% in 2021. Across major markets, the 2020 expected growth rates range from +2% for China to -36% for the UK, with the eurozone at -31%. Switzerland continues to show resilience with an earnings decline of only -8% currently expected for 2020. This is reflected in the market's YTD relative performance and valuation.
- Switzerland's GDP fell -2.6% for Q1 2020 vs 0.3% in the prior quarter, with a fall in all major sectors except public consumption. The unemployment rate came in at 3.4% in May versus 3.1% for the previous print. Switzerland's leading KOF indicator recorded a slight rebound in June up to 59.4 from 53.2 in May.
- Except for Real Estate, all sectors in the SPI posted positive performances over the quarter, the best contributing sectors being Healthcare, Financials and Consumer Staples. In terms of individual names, the best contributors to the SPI's performance were names like Nestlé, Roche and UBS, while the worst contributors were Swiss Prime Site, PSP Swiss Property and Barry Callebaut.

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.

Performance Review

- Over Q2 2020, UBAM-Swiss Equity delivered +12.3% in gross performance versus +9.9% for the SPI. YTD, the fund accumulated +0.35% in gross excess return over the benchmark. Both sector allocation and stock selection were positive over Q2, with 1.8% and 0.6% contribution to excess return respectively. The portfolio overweight in the IT sector has contributed more than 1% of the excess return coming from sector allocation, as the sector rallied by 30%. Stock selection in Healthcare also contributed very positively but was slightly offset by the selection in Financials.
- In terms of individual names, the best contributors over the quarter were the overweights in Zur Rose, Lonza and Partners Group (+90bps, +62bps and +57bps respectively). Zur Rose's share price appreciated by more than 110% over Q2, as the lockdowns in Germany and Switzerland led to an acceleration of customers turning online to buy pharmacy and drugstore products and it became more and more likely that the German Bundestag would vote in favour of making e-prescriptions mandatory as of 1 January 2022. Lonza continued its upward trend, gaining 25% over the quarter. Apart from its Moderna collaboration in the development and manufacturing of a Covid-19 vaccine, the longer-term structural growth outlook remains very strong. Partners Group was up more than 32% over Q2 after an interim update on investment activities and portfolio performances as well as net new money inflows over the first 4 months of the year reassured investors.
- The biggest relative detractors over the quarter were the overweight in Zurich Insurance, as well as the absence of exposure to ABB and UBS. Zurich Insurance returned +3% over the quarter, underperforming the Financials sector which was up 15% on the back of cyclical sector rotation. Insurance names continue to face uncertainties around credit markets as well as insurance coverage around lockdowns due to the pandemic. Both ABB and UBS share prices appreciated by 25% in Q2. ABB's CEO reassured investors and confirmed the company's midterm targets with a focus on profitability before growth. UBS on the other hand benefited from the recovery trade in the European banking sector.

Portfolio Activity

- No major changes were done on the portfolio level over the month of April.
- Over the month of May, the team exited its position in Georg Fischer given their exposure to the global automotive industry. The positions in Swiss Re and Zurich Insurance were also slightly reduced over the month. On the other hand, the team initiated positions in Bachem and HBM Healthcare in the Healthcare sector and VZ Holding in Financials.
- No major changes were done during the month of June.

Outlook

- The post Covid-19 environment continues to offer limited visibility on economic recovery as well as earnings development leading numerous companies to withhold guidance for the medium term. After the sharp drop in March and the significant rebounds in April and May, global markets now trade close to fair value with some upside potential if economic activity re-accelerates more than

expected. An active investment approach based on fundamental stock picking focusing on the medium to long term rather than short term movements, should provide equity investors with the needed stability and agility to navigate this volatile period.

- Swiss equities remain the most resilient market offering superior risk adjusted returns over the short and longer term versus other regional and global markets. This structural outperformance is driven by their superior value creation and ESG profiles. The strategy remains well positioned for short-term momentum as well as long term structural drivers, without the need to time markets or themes.

Disclaimer