

UBAM - SMART DATA US EQUITY

Quarterly Comment

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

Market Comment

- In Q3, all major equity markets posted positive returns, though with a downturn in September for most of them. The MSCI AC World finished up +8.1%. At regional level, Emerging equities were up +9.6%, US equities +8.9%, Japanese equities +5.2%, and European Equities +0.1%. As for Swiss equities, the SPI was up +2.3% and the SPI Extra ended Q3 2020 at +6.4%. YTD, the SPI and the SPI Extra have returned -0.9% and -0.7% respectively, whereas the MSCI AC World was up +1.4%.
- Economic activity continued its post Covid-19 recovery, but with a fading momentum at the end of the quarter, pointing towards still positive but slower growth pace in Q4. As per estimates, US Q3 GDP should rebound strongly thanks to consumption and a first upturn in equipment spending. Regarding business sentiment, the US manufacturing sector is in good shape with the PMI at 53.5. However, in September the services sector activity declined for the first time since April from 55 to 54.6. The same happened in Europe with an increased divergence between a good momentum in the manufacturing sector and a negative sentiment in the services sector, impacted by renewed social distancing measures and constraints on hospitality. Over the quarter, unemployment continued decreasing in the US while increasing in Europe. Though employment is at risk in both regions, especially in services, and supportive measures have been extended further.
- At the end of the quarter, the US continued to show positive earnings momentum across all sectors, whereas the picture was more mixed elsewhere. Furthermore, except for Materials, regional disparities across sectors were significant. Among the major markets, expected earnings growth rates for 2020 range from +0% for China to -39% for both the UK and eurozone, with the US roughly in the middle of the range (-16%). A sharp earnings rebound is anticipated in all major regions next year, notably for the eurozone (+55%). Regarding the major valuation metrics for global equities, the 12m forward PE fell to 19x after having exceeded 20x during the summer, the price-to-book ratio remained at 113% of its 5-year average while the 12m fwd ROE increased slightly to 90% of its longer term average.
- Despite Energy, all sectors of the MSCI AC World finished the quarter in the green. The biggest contributors over Q3 were IT, Consumer Discretionary and Industrials.

Performance Review

- Since its February 19th 2020 inception, the Fund has posted a net performance of +3.07% vs 0.96% for the S&P 500 TR index, delivering +2.11% of net excess return since launch.
- In the third quarter, UBAM - Smart Data US Equity was up +8.3% net to investors (I USD class), underperforming by -0.66% the S&P 500 Total Return reference that was up +8.93% over the same period. Unlike the previous quarter, the summer rally was even more indiscriminate and narrowly driven by mega caps (the 'GAFAM' stocks), before reversing abruptly in September due to stimulus delay and an increase in European COVID-19 cases
- On a monthly basis the fund outperformed earlier in July but then suffered in August (net excess returns of +0.77% in July; -1.38% in August and -0.04% in September respectively), trading very actively and therefore turning over the book near 4.3x over the quarter.
- Over Q3, the average beta to the index was a relatively defensive 0.92 as the portfolio has started underweighting technology mega-caps (the 'GAFAM' stocks) and hence tilting towards defensive names and fundamental value.
- In Q3 2020, Smart Data US Equity investment sub-strategies - Social Media, Blogs and Job Openings - delivered respectively an approximate gross contribution of +2.6%, +2.1% and +3.5%. During the quarter, the Job Openings stock picking sub-strategy outperformed the index on a normalised basis; on the other hand the Blogs and Social Media sub-strategies underperformed the same reference.
- The Job Opening sub-strategy significantly outperformed in July and featured the current top employing companies: industries such as Health Management, Utilities, Household Equipment and Foods drove most of single stocks outperformance.
- The Blogs sub-strategy, more fundamental in nature, maintained a broadly more value / defensive portfolio with an underweight in the Information Technology and overweight in the Healthcare and Energy sectors.
- The Social Media sub-strategy has underperformed S&P 500 for the first time since the launch of the fund due to the September reversal in growth technology and communication services stocks.

Portfolio Activity

- The UBAM Smart Data US Equity UCITS fund is managed by UBP and stock selection is based on robust market sentiment signals distilled exclusively from QuantCube Technology's alternative data sources, with a minimum five-year live track record. This results in a high conviction portfolio of 30–50 US large-capitalisation positions with a medium-term holding period.
- During the previous months, the portfolio has managed to maintain a balanced allocation between positively and negatively impacted stocks by Covid-19 with around 51% on average allocated on Communications Services, Information technology and Healthcare sectors and 39% on average allocated for Consumer Discretionary, Industrials, Financials, Energy and Materials sectors.
- The investment process is systematically agnostic versus any traditional investment style, dynamically switching from growth to value biases, based on short-term nowcasting of underlying stock fundamentals. In general, the strategy is very active and dynamic, turning over 140% per month on average since launch.

- Overt the quarter, the top 10 overweights were Eversource Energy, Alexandria Re, Gilead Sciences, Intel Corp and JPM; the top 5 underweights were Microsoft, Apple, Alphabet, Johnson& Johnson and Amazon.
- In terms of relative contribution, winning trades were Twitter, ADM, Intel Corp, Nvidia and Fedex; Gilead Sciences, CVS Health, Borgwarner, Apple and Salesforce relatively detracted instead.

Outlook

- QuantCube Technology has put forward several macro nowcasting tools by using various alternative sources of information available on a daily frequency without any publication or revision lags. Furthermore, it has developed an innovative methodology aiming at predicting the US 2020 presidential elections by combining high-frequency macroeconomic data and social media sentiment analysis models.
- Based on high-frequency macro data provided by QuantCube Technology, they did not see any country with significant positive YoY growth but noted some acceleration coming from China, Germany and Australia.
- US International trade is still quite weak with a YoY change of -12.6% on Sep 29, 2020. At the port level (via shipping geolocation data), YoY change of +9.0% for the Long Beach Port on the US West Coast, -11% for Houston Port and -15% in New York Port. It shows that international trade has accelerated mostly on the US West Coast towards Asian countries. Further economic developments will be impacted by the U.S. elections.
- At the time of writing, the QuantCube Technology US election model, predicted a Joe Biden's victory at the national vote having 54,4 % of the votes vs. 45.6% for Trump. However, as the 2016 Presidential Election taught us, the candidate who gets the most votes at the national level is not necessarily the one who wins the election. As Election Day gets closer, the model expects candidates to have a higher emotional impact (via social media sentiment) whilst economic issues (macro nowcast) will have a smaller importance. Therefore, the mix-model will have a dynamic weighting based on approaching Election date, with a higher weight for the social media model than high-frequency macro data model.
- International trade has been widely affected by the Covid-19 crisis through the disruptions of supply chains and the drop in global demand. However, there is evidence of heterogeneity in the pace of the recovery, especially when comparing China and the US. China was the first impacted economy at the very beginning of 2020 but now China seems to have fully recovered as regards international trade and stands at its 2019 level.

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