

UBAM - GLOBAL 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%.
- 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% and are 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 eurozone at -31%, while Switzerland continues showing resilience with only -8% currently expected. The MSCI AC World 12-month forward P/E multiple rebounded on much lower 12month forward EPS figures to close to 19.7x, the highest level since 2002.
- All sectors of the MSCI AC World finished the quarter in the green. The biggest contributors over Q2 were the IT sector, followed by Consumer Discretionary and Health Care. In terms of individual names, top contributing names were Apple, Amazon and Microsoft with more than 30% performance over the quarter each. The worst detractors were HSBC, Wirecard and General Electric.

Performance Review

- UBAM - Global Equity returned +25.5% in gross performance with +6.3% excess return above the MSCI AC World over Q2 2020. Stock selection was the main source of outperformance with +7.2% contribution to excess return namely in the Industrials sector. This was slightly offset by sector allocation with -0.61% and currency effect -with 0.31% due to the underweight in Emerging Market currencies.
- In terms of individual names, the exposure to SolarEdge and Sunrun along with the overweight in Ashtead Group were the major contributors over the quarter (+2.18%, 0.80% and 0.62% respectively). SolarEdge's share price appreciated more than +70% over the quarter after reporting a significant revenues growth beating expectations with a miss on earnings however. Sunrun was up +95% over Q2 despite reporting disappointing Q1 results. The company benefited from the recovery trade in cyclicals and further announced plans to launch one of the first residential energy storage virtual power plants in the US. Ashtead was up +53% over the quarter also on the back of the sector rotation, and after posting positive Q1 results with an announced increase in dividend.
- The biggest detractors over the period were the position in eHealth, the absence of exposure to Apple and the overweight in NextEra Energy (-83bps, -74bps and -51bps respectively). eHealth dropped -30% over the quarter after announcing a cut in EPS forecast, but posted however a positive beat on revenues. Insurance names continued facing pressure from uncertainties around credit markets and the risk of a second wave of infection. Apple was up +43% over the period as its supply chain appeared to normalise ahead of expectation with China's business recovery. NextEra was close to flat over Q2 after the company reported a fall in profits for Q1 but maintained dividends for the year.

Portfolio Activity

- Over the month of April, the team initiated a position in American Tower with a defensive business model and growth opportunities from 5G installations and capacity increases by Telcos for crisis related traffic. The team also bought ASML, Netflix, Alibaba, Bawag and NovoNordisk over the month, and liquidated on the other hand United Rentals, 3I Group, Citigroup. The team also decided to liquidate the position in Wirecard after an inconclusive KPMG investigation report and a foreseen risk in financial reporting delay. In fact, Wirecard's share price dropped 94% over the quarter as the company faced increased concerns after announcing missing 1.9bn Euro from its accounts.
- Over the month of May, a position in ASML was initiated, the semi equipment manufacturer benefiting from structural growth in chip production. Positions in Leg Immobilien and Ceres Power were also created .
- Over the month of June, the team decided to open new positions in Nvidia and Ocado Group, both high growth companies combined with structural demand.

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.
- The strategy remains well positioned for short-term momentum as well as long term structural drivers, without the need to time markets or themes. The portfolio offers an interesting and dynamic exposure to improving value creation at fast growing, often smaller, companies. These company profiles provide access to attractive sources of returns during economic and business recovery cycles, specifically in a post Covid-19 world.

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