



# UBAM – ADAMS US SMALL CAP EQUITY

Quarterly Comment | Q1 2019

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

---

## *Market Comment*

- ◆ The S&P 500 N.R. finished the quarter in positive territories with +13.47% performance at the end of March. Growth has been in favour this quarter with a performance of +15.99%. Value delivered a positive performance as well over the same period with +11.72%. Small caps were outperforming larger capitalization, delivering +14.47% for the quarter. Sector wise, Information Technology with +19.94%, Industrial with 17.27% and Real Estate with 16.76% have been outstanding. Health Care delivered the worst sector performance with +6.53%, followed by Financials with +8.96% and Utilities with +9.99%.
- ◆ After a catastrophic end to 2018, the Fed's shift in tone triggered a strong rebound in risk assets in January 2019. Effectively, the Fed's tone changed dramatically, promising that it would be "patient" on any future rate hikes. The strong upswing in risk assets could also be put down to better company results than expected, a huge spike in the oil price, and encouraging progress in the US–China trade negotiations.
- ◆ This strong equity upturn continued in February thanks to geopolitical tensions easing and central banks confirming their cautious stance. Investors largely ignored economic data, which were generally very mixed. At the very end of February, Q4 GDP figures were released (+2.6%, annualised) and they confirmed that domestic demand was still solid
- ◆ Finally, in March, The Fed revised its growth expectations for 2019 down (from 2.3% to 2.1%) and, as rates hike came to a halt, it announced that it would wind up its balance-sheet reduction programme in September in light of the risks weighing on the global economy. The highly cautious stances of the Fed, coupled with economic data that were often disappointing, brought about a significant drop in long yields, which in turn translated into an inversion on the 3-month–10-year part of the curve.



---

### *Performance Review*

- ◆ In Q1 2019, difficulties in Health Care and Consumer Discretionary offset good results in both Information Technology and Communications Services. Within Health Care, American Renal Associates (ARA), a company that owns and operates kidney dialysis facilities was the most important detractor to the performance. Following an audit committee review, the company board concluded that some past annual financial statements had to be restated (the chief financial officer resigned).
- ◆ In Consumer Discretionary, both Party City (PRTY) and Tailored Brands (TLRD) were headwinds for the sectors. PRTY designs, manufactures and retails party goods. The company reported earnings and sales that trailed estimates for the quarter on Feb 28. Additionally, the issued guidance (EPS and revenue) were below analyst estimates. TLRD is a retail holding company for various men's apparel stores. The company reported a smaller than expected loss but offered below consensus guidance.
- ◆ In Information Technology, Progress Software (PRGS) and Cardtronics (CATM) were the largest contributors to the performance. PRGS develops, markets and distributes applications. The company agreed to acquire Ipswitch, a privately held file transfer software maker. This acquisition contributed to boost its 2019 fiscal forecast. CATM operates as a cash machine provider. The company reported higher profits and higher sales than estimated.
- ◆ In Communications Services, Sinclair Broadcast (SBGI) was one of the main contributors to the performance. The company operates as a television broadcasting company. The company reported higher profits and higher sales than estimated.

---

### *Portfolio Activity*

- ◆ The largest additions during the quarter have been Deckers Outdoor, Rush Enterprises and Angiodynamics
- ◆ The main deletions during the quarter have been Haemonetics, Pennymac Financial Services and Allete



---

## Outlook

- ◆ With global equities continuing to press higher in March, rising PEs are approaching their limit in terms of their ability to drive returns further without any signs of current worries about recession or downside risks to even today's modest earnings expectations being unwarranted. We remain constructive on both fronts though further evidence in support of both views may only emerge gradually throughout the 2nd quarter.
- ◆ Encouragingly, we are seeing early signs that economies around the world are stabilising. US reports indicate that unemployment claims have returned to their mid-2018 levels. In Germany and China, business sentiment and expectations firmed in March following weakness earlier in the year. This comes following February's dramatic shift in tone and policy trajectory from both the US Federal Reserve and the European Central Bank. After the change in Fed's strategy, the economic policy should cushion the current slowdown and should have more effective supports on activity on H2-19.
- ◆ Admittedly, the inversion of the US yield curve (3-month USD yields are greater than 10-year yields) has raised concerns about an imminent recession. However, since the mid-1980s, the 3-month/10-year yield curve has inverted seven times, only resulting in recession on three occasions. Just as important, in these six of the seven inversion episodes, US equity investors saw returns of +12-26% one year after inversion.
- ◆ In the US, a moderate growth is in place in Q1. Consumer confidence, retail sales and proxies for capex were recently better oriented. A stabilization in activity is expected on Q2, after a below 2% growth in Q1. Finally, the housing market should benefit from the recent fall in bond yields
- ◆ Tail risks remain in place, with Brexit uncertainties, ongoing US-China trade negotiations and upcoming EU elections; however, the cycle looks resilient and the probability of a US-China trade deal appears to be rising.

---

## Disclaimer

**This is a marketing document and is intended for informational and/or marketing purposes only. This document is confidential and is intended only for the use of the person(s) to whom it was delivered.** This document may not be reproduced (in whole or in part) or delivered, given, sent or in any other way made accessible, to any other person without the prior written approval of Union Bancaire Privée, UBP SA or any entity of the UBP Group ("UBP"). This document reflects the opinion of UBP as of the date of issue.

This document is for distribution only to persons who are Qualified Investors in Switzerland or Professional Clients, Eligible Counterparties or equivalent category of investors as defined by the relevant laws (all such persons together being referred to as "relevant persons"). This document is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. It is not intended for distribution, publication, or use, in whole or in part, in any jurisdiction where such distribution, publication, or use would be unlawful, nor is it directed to any person or entity to which it would be unlawful to direct such a document. In particular, this document may not be distributed in the United States of America and/or to US Persons (including US citizens residing outside the United States of America).

This document has not been produced by UBP's financial analysts and is not to be considered as financial research. It is not subject to any guidelines on financial research and independence of financial analysis.

Reasonable efforts have been made to ensure that the content of this document is based on information and data obtained from reliable sources. However, UBP has not verified the information from third sources in this document and does not guarantee its accuracy or completeness. UBP accepts no liability whatsoever and makes no representation, warranty or undertaking, express or implied, for any information, projections or any of the opinions contained herein or for any errors, omissions or misstatements. The information contained herein is subject to change without prior notice. UBP gives no undertaking to update this document or to correct any inaccuracies in it which may become apparent.

This document may refer to the past performance of investment interests. **Past performance is not a guide to current or future results.** The value of investment interests can fall as well as rise. Any capital invested may be at risk and you may not get back some or all of your original capital. In addition, any performance data included in this document does not take into account fees and expenses charged on issuance and redemption of securities nor any taxes that may be levied. Changes in exchange rates may cause increases or decreases in your return.

All statements other than statements of historical fact in this document are "forward-looking statements". Forward-looking statements are not guarantees of future performance. The financial projections included in this document do not represent forecasts or budgets, but are purely illustrative examples based on a series of current expectations and assumptions which may not eventuate. The actual performance, results, financial condition and prospects of an investment interest may differ materially from those expressed or implied by the forward-looking statements in this document as the projected or targeted returns are inherently subject to significant economic, market and other uncertainties that may adversely affect performance. UBP disclaims any obligation to update any forward-looking statement, as a result of new information, future events or otherwise.

It should not be construed as advice or any form of recommendation to purchase or sell any security or funds. It does not replace a prospectus or any other legal documents that can be obtained free of charge from the registered office of a fund or from UBP. The opinions herein do not take into account individual investors' circumstances, objectives, or needs. Each investor must make his/her own independent decision regarding any securities or financial instruments mentioned herein and should independently determine the merits or suitability of any investment. In addition, the tax treatment of any investment in the fund(s) mentioned herein depends on each individual investor's circumstances. Investors are invited to read carefully the risk warnings and the regulations set out in the prospectus or other legal documents and are advised to seek professional advice from their financial, legal and tax advisors. The tax treatment of any investment in the Fund depends on your individual circumstances and may be subject to change in the future.

The document neither constitutes an offer nor a solicitation to buy, subscribe for or sell any currency, funds, product or financial instrument, make any investment, or participate in any particular trading strategy in any jurisdiction where such an offer or solicitation would not be authorised, or to any person to whom it would be unlawful to make such an offer or invitation.

Telephone calls to the telephone number stated in this presentation may be recorded. When calling this number, UBP will assume that you consent to this recording.

UBP is authorised and regulated in Switzerland by the Swiss Financial Market Supervisory Authority and is authorised in the United Kingdom by the Prudential Regulation Authority. UBP is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority.

Any subscriptions not based on the funds' latest prospectuses, KIID, annual or semi-annual reports or other relevant legal document shall not be acceptable. The latest prospectus, articles of association, KIID and annual and semi-annual reports of the funds presented herein (the "Funds' Legal Documents") may be obtained free of charge from Union Bancaire Privée, UBP SA, 96-98, rue du Rhône, P.O. Box 1320, 1211 Geneva 1 ("UBP"). The Funds' Legal Documents may also be obtained free of charge from UBP Asset Management (Europe) S.A., 287-289 route d'Arlon, 1150 Luxembourg, Grand Duchy of Luxembourg. The Funds' Legal Documents may also be obtained free of charge from Union Bancaire Gestion Institutionnelle (France) SAS, 127, avenue des Champs-Élysées, 75008 Paris, France.