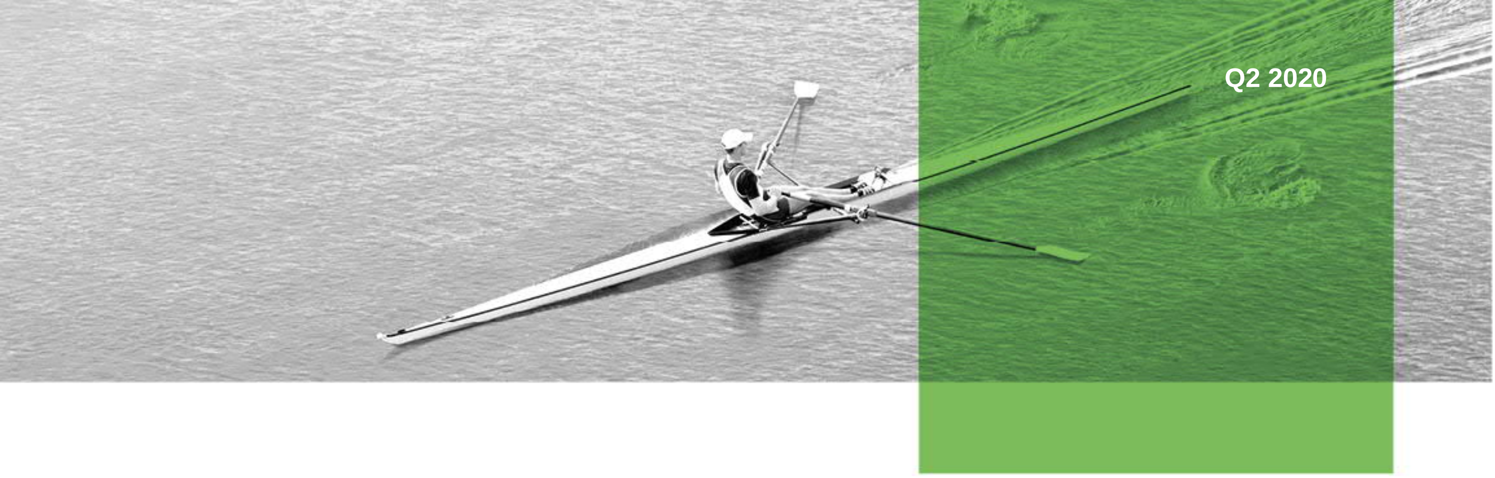

UBAM – Multifunds allocation Flexible

Quarterly Comment | Q2 2020

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

Market Comment

- Risk assets rebounded firmly from their March lows through Q2 although sentiment remained skittish around news flow pertaining to COVID-19 and the increasing threats of a second wave, whilst geopolitical risk in the shape of the fractious relationship between the US and China remains.
- This has overshadowed supportive macroeconomic data which is providing impetus to the bullish narrative although it doesn't take much to beat the extraordinarily depressed readings set by the economic fallout from the virus. An example of this can be seen by the US retail sales figure for May which showed a +17.7% rebound from the previous month, ahead of expectations of +8.4%. Consumer consumption patterns carry more weight in the US today given that ~70% of the US economy is driven by the consumer.
- Elsewhere in the US, jobs data also came in better than expected earlier towards quarter end with the unemployment rate declining from 14.7% to 13.3% as 2.5mn jobs were added back to payroll. This was higher than expected. The New York Fed Manufacturing survey also jumped the most since records began in 2001 in June as the general business conditions index advanced to -0.2 from -48.5 a month earlier whilst firms also grew more optimistic about future conditions. Data is typically noisy and volatile during periods like we are in today, however it is encouraging, nonetheless.
- Whether the recent bounce in data morphs into something firmer and more durable remains to be seen however leading economic indicators and financial conditions continue to provide impetus to this trend. Encouragingly the Citi Economic Surprise Index in the US has recently touched its highest level in history but admittedly the low readings set during the recent contagion make the bars easier to beat. However, it remains a net positive nonetheless as economies continue to reopen.
- On central bank policy and in the US, the FOMC concluded and the Fed reiterated that it expects to maintain the near-zero federal funds rate until it is confident the economy is on track to achieving the central bank's dual mandate. The FOMC's dot plot illustrates a strong likelihood that rates will remain at zero until the end of 2022 whilst Fed Chair Powell reiterated this message during the press conference afterwards. On QE, the Fed continues to purchase around $80bn of US Treasuries and $40bn of mortgage backed securities each month whilst the Fed also announced that it now expects to begin buying corporate cash bonds outright through its already announced "Secondary Market Corporate Credit Facility" which has capacity of $250bn. Only ~$5bn has been added so far which has primarily been through ETF instruments.
- In Europe the ECB also announced new measures to combat the effects of the virus on the region's economy with the new Pandemic Emergency Purchase Programme (PEPP) being expanded in size by €600bn to €1.35 tn and should remain in place until the middle of 2021. This further compliment the mooted €500bn - €750bn fiscal initiative European recovery plan unveiled by the European Commission in late May and is expected to be ratified by EU nations next month.

Sources: UBP, Bloomberg Finance LP.

Performance Review

- Overall performance from the fund rebounded sharply from Q1 lows. After appearing to show signs of some degree of rotation from defensives to cyclicals during the final month of the quarter, that has since reversed at least in the US and at the global level following fears around a second wave, whilst performance between regional equity markets has also been quite broad and sporadic. Anchored yields at the long ends of respective yield curves continue to support Growth-orientated factors for now.
- At the underlying portfolio level, the barbell nature of the equity portfolio provided good ballast to overall returns over the quarter with many of the fund's cyclically orientated managers in Europe and Asia outperforming towards the latter end of the quarter. They have recovered from extraordinarily depressed levels and were able to more than offset the more defensive style skews at the global level which underperformed on the quarter overall.
- The outperformance of cyclicals is also being seen in Japan with the country benefiting from limited signs of reinfections so far. Year to date the Japanese equity market (-4.1%) remains one of the best performing markets within the developed world which is an encouraging sign, its market is typically a bellwether to the global growth outlook such is the degree of correlation it tends to have with the cyclical momentum around the world.

Portfolio Activity

- During the quarter, we gradually increased our position in Investment Grade credit and US inflation at the expense of our passive duration positions, believing the strong commitment from developed countries Governments and Central Banks has provided a short-midterm safety net for quality assets.
- We reviewed all our directional managers and concluded to not trim them on the core belief that they offer very strong rebound potential after the correction. Indeed, the Covid-Oil war double shock was unpredictable by nature and most of their investment positions became even more valuable under a government and central banks safety net scenario.
- The Fund maintains a 59.5% weighting to equities, 35.1% to fixed income and Cash remains at 5.6% of the portfolio.

Sources: UBP, Bloomberg Finance LP.

Outlook

- Markets and sentiment overall continue to be broadly caught between the cross hairs of the simmering likelihood of a second wave of the virus versus masses of liquidity and rebounding economic data as economies reopen.
- The fiscal and monetary response to the global recession by the world's central banks and governments has not only been unprecedented in terms of its timing but it has also been colossal in its size. According to some estimates, so far there has been a $20trillion commitment from the world's authorities to fill the economic impact of COVID-19 which by some is estimated to cost the world's economy $9trillion in lost productivity over 2020 and 2021.
- Within the G4 for instance, central banks' balance sheets are expected to increase by ~ +25% over the coming 12 months with the US Federal Reserve's purchases alone projected to equate to one third of US GDP or equating to nearly 28% of the S&P 500's market cap or ~43% of the Barclays US Aggregate Bond Index.
- The threats posed by a second wave of the virus cannot be dismissed however but there remains a stark divergence in the relative valuations between cyclically orientated equities relative to their more defensive peers.

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.

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