UBAM - GLOBAL EQUITY

Quarterly Comment

Marketing Communication

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Market Comment

- Supported by optimism around a softer landing in the US, the AI hype and soon to come interest rate cuts, equity markets continued their climb in Q1 2024, with many of the main indices making new all-time highs. In March, performance drivers started to broaden with energy and banks contributing positively, as investors were looking for attractively priced areas of the market away from the diverging “Mag 7”. The MSCI AC World rose +8.1% over the quarter, with Japanese equities up +17.3%, US equities +10.6%, Swiss equities +6.0%, European equities +7.6%, and Emerging Market equities +2.1% (performances as of 28.03.2024, in local currencies).
- US GDP growth for Q4 23 came in slightly above estimates at 3.4% qoq but showed some slowdown from the previous quarter. Activity is expected to moderate in Q1 2024, but average growth for the full year should remain in a 2%-2.5% range after 2.3% in 2023. This would support the soft-landing scenario as US consumers continue to benefit from a tight employment market. The US Fed announced no change in key rates during their March meeting, as inflation remained elevated coupled with solid activity and strong labour indicators. The US yearly inflation trend increased for end of February from 3.1% to 3.2%. In a similar move, the ECB kept interest rates unchanged in March and cut its 2024 inflation forecast to 2.3%. The yearly headline inflation print for the Eurozone fell slightly in February, but core inflation remained above 3% yoy. Manufacturing PMI for the Eurozone came in better than expected at 46.1 for March, with less pronounced negative business sentiment and improving confidence about the economic recovery.
- At the end of the quarter, EPS growth expectations for US equities stood at 10% for 2024 compared to 9% for global equities, with valuation edging slightly higher to 20.9x fwd PE ratio vs 17.9x for the MSCI AC World. This rerating continues to be mainly driven by the large cap US tech companies, that are still gaining in weight in the indices, and boast high profitability and earnings growth. Nevertheless, the dominant “Mag 7” trade continued to show divergences with Tesla and Apple posting losses YTD.
- Over Q1 2024, all sectors of the MSCI AC World except for Real Estate, delivered positive performances. The IT sector was by far the largest performance contributor YTD, followed by Financials and Industrials. Over the month of March however, Financials were the largest performance contributor. This marked the start of a broadening in the market, following the high levels of concentration that have boosted the Momentum factor so far in 2024. In terms of individual names, Nvidia, Microsoft and Meta were the largest performance contributors YTD, while on the other end of the spectrum Apple, Tesla and Adobe were the largest detractors.

All performance figures are given gross of fees. Past performance is not a guide to current or future returns. See full disclaimer at the end of the document.

Performance Review

- UBAM - Global Equity delivered +12.9% in gross performance over the first quarter of the year vs +8.1% for the MSCI AC World. Stock selection was the main contributor to relative performance, especially in Healthcare, Consumer Discretionary and Communication Services. Sector allocation also had a positive contribution, particularly the underweight in Materials as well as the absence of exposure to Materials and Real Estate.
- The main contributors to relative performance in Q1 were the overweights in Nvidia, Meta and United Rentals (+94bps, +51bps, +45bps respectively). Nvidia climbed +82% YTD after the company delivered better than expected results and issued a positive outlook for Q1 2024, putting aside supply chain and growth slowdown concerns. Meta gained +37% as the group continues to execute seamlessly and to beat expectations despite a tougher comparison base. Importantly, the group gave more details regarding its AI goals and strategy (e.g.: in-house AI chip development, open-source platform to drive Meta ecosystem adoption etc.) in early February, reinforcing investors' confidence that current strength is sustainable. United Rentals was up +26% on strong full year results and the announcement of an accretive acquisition.
- The main performance detractors over Q1 were the overweights in Adobe and Infineon as well as the exposure to Sunrun (-53bps, -44bps and -38bps respectively). Adobe dropped -15% over the period despite releasing quarterly results ahead of the Street. However, management failed to formally reiterate the full-year guidance, which raised worries among investors in a context of rising competition from companies like Sora (OpenAI's text to video design software). During its "Adobe Summit" held two weeks later, the company gave a more confident message around the full-year guidance and shared annual growth estimates of "low teens" by 2027 for its key divisions. Infineon share price lost -16%. Infineon was under pressure due to continued negative sentiment around its auto business and concerns regarding China localisation. Sunrun was down -33%, reacting negatively to somewhat mixed FY 2023 results.

Portfolio Activity and ESG

- Over Q1, the team sold the remaining position in DNB Bank on lackluster revenue growth expectation for 2024, combined with cost growth, and at best unchanged loan losses. Moreover the company was trading at a 50% premium to other banks. On the other hand, the team initiated a position in Unicredit which changed from capital increases and dividend omissions to a solid capital position and share buybacks. The company provides EPS upgrades and management guidance above consensus as well as reasonable valuation. The team also bought a position in Broadcom, a 40% CFROI® (Cash Flow Return on Investment) business with 60%/40% hardware/software mix. The company benefits from AI (network solutions for datacenters) and the recent VMWare acquisition contributes to growth and resilient EPS expectations. Moreover, Broadcom trades at reasonable levels. Air Liquide was also added in the portfolio on ongoing margin improvements. The company delivered a total +150bps margin expansion in 2022 and 2023, and after already almost achieving the +160bps improvement plan set for 2025, they doubled the target to +320bps. A higher Capex to sales at 14% for 2024 and 2025, versus 10-12% during a normal cycle, should support volumes. A new position in Linde was initiated, on the expectation that the company should continue to benefit from the Praxair merger. The business combination represents compelling value creation for all stakeholders, leveraging the unique strengths of both to create a global industrial

gas leader. Furthermore, it leads to a potential lift of the 10% CFROI® level to 13%. Linde plc will benefit from a strong presence in all key geographies and end-markets, which will result in a more balanced and global portfolio as well as increased exposure to long-term macro trends. Finally, the team added a position in Marriott on aggressive EPS growth policies, supported by an asset light model, share buybacks, room growth and additional agreements on using its own booking platform for external clients. Revenue per Available Room growth is expected to slow down but this is well guided and has not been an obstacle for performance so far. Its CFROI® climbed to 90% on the extremely asset light model and negative NWC. The company trades at reasonable valuation levels.

- ESG considerations are fully integrated in each step of the fundamental investment process with a focus on a lower carbon footprint objective. At the end of March 2024, the portfolio had a AA ESG rating with an ESG quality score of 7.2, versus a A rating and 6.8 score for the MSCI AC World (ratings based on MSCI ESG Research). The portfolio's weighted average carbon intensity is significantly lower than its benchmark's with 34.5 tons CO2/$mn sales vs 118.2 tons for the MSCI AC World index.

Outlook

- Given the prevailing market concentration levels particularly around US tech names, investors should factor in the risks of a negative market surprise linked to geopolitics and elections, interest rate moves or AI results. After 0% EPS growth delivered in 2023, the highly anticipated first earnings season of the year could bring some volatility, especially around names with extended valuation levels. We believe that investors should privilege active bottom-up strategies exposed to diversified sources of performance.
- In this context, the Global Equity strategy should be well positioned to weather 2024 market conditions as it continues to focus on sustainable value creation and visible earnings growth with the bottom-up selection of diversified companies with strong fundamentals and secular growth opportunities.

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