

UBAM - DYNAMIC US DOLLAR BOND

Quarterly Comment

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

Market Comment

- The loss of momentum in risk markets continued for a second month in October as investors prepared for the upcoming US election and as Covid-19 concerns resurfaced. In particular, the pandemic infection rate accelerated in the UK and several core European countries including France and Germany, triggering the announcement of nationwide lockdown measures being brought in for at least the month of November. This resulted in growth expectations being revised lower in the region for Q4, with the risk of a double dip in growth becoming a clear possibility, which also drove policymakers back into action. For example in the UK, the furlough scheme was extended to December, whilst in Europe, ECB President Lagarde at the November meeting press conference pre-committed to further easing in December.
- Although investors were already anticipating for an expansion of the PEPP program to come at the final meeting of the year, hopes for a wider package of easing measures rose after the statement mentioned that on the basis of the updated economic assessment, the Governing Council will recalibrate its instruments as appropriate, to respond to the unfolding situation, to ensure that financing conditions remain favourable and to counteract the negative impact of the pandemic on the projected inflation path.
- As a result, we saw a significant outperformance of EUR vs USD rates in October, with German 10y Bund yields rallying by 11 bps, whilst the equivalent US Treasury yields sold off by 19 bps. This underperformance of US rates was not only due to ECB guidance, but also ahead of the US elections in which stable polling left a Democratic sweep as the most likely outcome, which would pave the way for a major fiscal package to be passed early next year. These developments also allowed for US investment grade credit to outperform its European counterpart, with spreads tightening by 9 bps compared to Europe where they only managed to tighten by 2 bps.
- November was a strong month for risk markets following positive news from the eagerly awaited Phase III vaccine trials, boosting hopes that economies will be able to begin normalising in early-2021. In particular, efficacy rates for two of the major vaccine candidates was over 90% which was higher than initially expected, paving the way for potential regulatory approval before year-end.
- Although Covid-19 cases continued to rise in the US in November, and lockdown restrictions were still weighing on the key European economies, the market chose to instead focus on the more medium term benefits of a vaccine, allowing for near-term dips in growth to be viewed as more temporary in nature.
- This is in contrast to the central banks, where both Fed Governor Powell and ECB President Lagarde chose to highlight the more immediate downside risks to growth from the pandemic, thus confirming that monetary policy accommodation would continue. This was especially the case with the ECB, where President Lagarde at the November conference hinted at another easing package to come in December given on going uncertainty related to Covid-19 and with inflationary pressures still lacking.



- Such a move allowed for peripheral spreads to continue to perform, with 10 year BTP spreads for example tightening by 18 bps during the month. This environment described also allowed for European Investment Grade credit spreads to end November 22 bps tighter, whilst US spreads were 21 bps tighter.
- Moves herein were also supported by the passing of the US Presidential elections, in which Joe Biden defeated Donald Trump to become the next President. The result showed a split Congress where the Republicans managed to retain control of the Senate, disappointing those who had expected a Democratic sweep. This also allowed for the US rates curve to bull flatten in November with the 5s30s curve 6 bps flatter as hopes of a large fiscal stimulus package were tempered as such a policy would struggle to make it passed the Senate.
- The year ended on a strong note for risk markets as investors took confidence from the commencement of the vaccine rollout in the US and UK. Positives also came out of tough negotiations as another Covid-19 fiscal package was approved in the US, whilst the UK and EU finally managed to agree on the terms of a Brexit trade deal ahead of the year-end deadline.
- As such, US Investment Grade Credit spreads managed to tighten another 9 bps in December, whilst European spreads were 2 bps tighter. Moves herein came despite Covid-19 cases appearing to accelerate again and lockdown measures being extended in the Eurozone and UK in particular, in light of the news regarding a more infectious Covid-19 variant beginning to spread. Investors chose to however focus on the more medium term positives of the vaccine rollout, which coupled with the US fiscal package which provided another round of stimulus cheques for individuals, has appeared to improve hopes that the growth recovery will continue in 2021.
- Central banks also played their part in assisting markets, as they have done since the Covid-19 crisis began, as both the Fed and ECB maintained accommodative policies in the final meeting of the year. The Fed for example released its updated dot plot in which they estimate for interest rates to remain unchanged at the zero lower bound over the forecast horizon, whilst the inflation rate is only expected to get back to target in 2023, suggesting no urgency to turn policy restrictive. At the ECB, the Governing Council delivered further easing, increasing the envelope of the pandemic emergency purchase programme (PEPP) by EUR 500bn, as well as extending such purchases until at least March 2022, in a bid to preserve the favourable financing conditions over the pandemic period.
- Amid this positive risk backdrop, US 10 year yields rose by 7 bps during December in what was a bear steepening move as investor optimism around greater fiscal spending rose. German 10y Bund yields in contrast were unchanged in December as the ECB continued to forcefully provide policy support and as there was some near term concern regarding another Covid-19 outbreak.



Performance Review

- UBAM - Dynamic US Dollar Bond increased +0.8% net of fees YTD (I Share class). In relative terms the strategy delivered +78bps of excess return before fees vs. a reference index*: Fed Fund index.
- The excess returns sequentially over the quarter were: +16bps in October, +16bps in November and +16bps in December.
- QTD, the core holdings of investment grade floating rate notes, fixed coupon bonds (with interest rate exposure hedged) and single name CDS generated +48bps of excess return.

**Index provided for comparison and information purposes only.*

Portfolio Activity

- At the end of the quarter, the yield of the portfolio in USD was 0.7% vs. 0.1% for the Fed Fund index.
- The interest rate exposure was -0.2 years
- The average life of the core portfolio (excluding liquid CDS overlay) was 22 months vs. 19 months at the end of the previous quarter
- The credit spread exposure was increased from 1.7 years to 1.8 years
- The average rating was A-

Outlook

- Despite accelerating Covid cases into year-end, risk markets concluded 2020 on a strong note as investors took confidence from the commencement of the vaccine rollout in the US and UK. Positively, 2020 also ended with key agreements being made in both the US and Eurozone following tough negotiations, clearing the outlook for the year ahead. In particular, another Covid-19 fiscal package was approved in the US, whilst the UK and EU finally managed to agree on the terms of a Brexit trade deal ahead of the year-end deadline. As we look ahead to 2021, we anticipate that the global growth recovery will remain intact as vaccine distribution will allow economies to gradually normalise, where we see the self-enforced slowdown that is set to come in Q1 due to the reintroduction of lockdown measures as a short-term blip to the recovery, rather than anything more sustained or persistent. In addition, we expect monetary policy will largely remain accommodative, despite most of the major easing announcements having passed, with fiscal policy now set to play a larger role following the Blue Sweep in the US, paving the way for another relief package.
- The dovish stance being taken by central banks was highlighted by the Fed in its final meeting of the year. For example, the updated dot plot shows that the board sees rates unchanged at the zero lower bound over the forecast horizon, whilst the inflation rate is only expected to get back to target in 2023. This is a clear indication that interest rates are unlikely to lift off for the near future, especially given the Fed's enhanced forward guidance in which it now aims to achieve inflation moderately above 2% for some time, so that inflation averages 2% over time. With the committee now focussed on its average inflation framework, as well as looking to cover what they describe as shortfalls in employment, rather than just deviations, it suggests a more patient Fed than in the past. The Fed will therefore be waiting to see both inflation and labour market pressures build before looking to react with any interest rate tightening. Despite progress on the vaccine front, it was clear from the last press conference that Chair Powell is more concerned about the short-term impact on the economy from the re-acceleration in Covid-19 cases, rather than the medium term benefits of the vaccine rollout.
- The more imminent policy decision in focus for the Fed will be its plans regarding quantitative easing, as expectations are mounting for a tapering announcement to be made during the course of the year as the economy may get to a stage where such loose liquidity conditions are no longer required. Whilst we see this as a possibility, we would not expect this discussion to be brought onto the table until at least the second half of the year given that the economy is still battling with the pandemic, as highlighted with the December payrolls print, which was the first negative reading since April. That said, we are not overly concerned with the weak labour market data as there were still broad based gains observed away from the leisure sector. We also think that the outcome of the recent Georgia Senate runoff has cleared the path for another sizeable pandemic relief bill to be passed once President-elect Biden has been inaugurated, after the Democrats managed to gain a very marginal Blue Sweep outcome from the elections. The bill will likely include another round of stimulus checks for individuals, which will support personal incomes and consumption over the coming months, as was observed following the initial relief package in 2020.



- The ECB ended 2020 with further policy support, which largely came through an increase in the envelope of its pandemic emergency purchase programme (PEPP) by EUR 500bn, as well as extending such purchases until at least March 2022. The ECB said that it made such a decision in a bid to preserve the favourable financing conditions over the pandemic period, which highlights to us that the board is committed to keeping peripheral spreads supported in 2021. Although we do see growth also recovering in the Eurozone in 2021, we do not anticipate for the ECB to make any tightening or tapering like announcements given the lack of inflation in the region, which will take pressure off the board from having to act. In the UK meanwhile, although a Brexit trade deal has now been agreed, the near term outlook remains uncertain given the spread of a more infectious Covid-19 variant, which has led to severe lockdown measures being introduced, at least until mid-February. Whilst the Bank of England already delivered with further easing measures through an increased QE program in Q4, the bank is leaving open the option to cut rates into negative territory were it deemed to be necessary. For now whilst this is not our base case, if there was any slowdown in the pace of vaccination distribution then it may force the bank into further action.
- We believe that the environment described above is one in which there is room for markets to revise higher its growth expectations for the year, driven by both the vaccine rollout as well as more fiscal stimulus from the US. We see a marginal Blue Sweep as a healthy outcome for investors in that it will allow for Biden to push through pro-growth policies such as more government spending and less confrontational plans with China, whilst not having enough support for some of his less market friendly ideas such as large tax hikes and significant regulatory changes. When we look ahead to 2021, we also see fewer risk events for investors to position for compared to last year, which should keep volatility suppressed, especially given ongoing intervention from the major central banks who we see as having drawn a line in the sand for credit markets, supporting spreads on moments of significant widening. This reduces some of the tail risks for credit, which should also benefit from the backdrop described above of improving growth, less event risk and supportive government policies, allowing investors to continue to pick up the carry.
- This constructive risk environment should also allow interest rate markets to continue to breathe higher, led by the long-end in a reflation type move given expectations for another large pandemic relief bill out of the US and hopes that the vaccine rollout will allow for the Q1 slowdown to only be a temporary one. Ultimately though, we would expect for the interest rate move to be capped following the initial sell-off as we see any inflationary pressures as temporary in nature, largely driven by supply bottlenecks due to the pandemic, rather than anything more structural. From a longer-term perspective, we think that the pandemic has further fuelled several disinflationary forces that were already in play such as technological change, whilst ongoing labour market slack suggests that it will be some time before we see real demand side pressures come through that would force central banks to tighten policy in a significant or abrupt way.

This is a marketing document and is intended for informational and/or marketing purposes only. It is confidential and is intended to be used only by the person(s) to whom it was delivered. It 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 Professional clients in Switzerland or Professional Clients or an equivalent category of investor 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 at any person or entity at 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 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 makes no representations, provides no warranty and gives no undertaking, express or implied, regarding any of the information, projections or opinions contained herein, nor does it accept any liability whatsoever 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 investors may not get back some or all of their original capital. Any performance data included in this document does not take into account fees, commissions, 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 investors' returns. All statements other than statements of historical fact in this document are "forward-looking statements". Forward-looking statements do not guarantee future performances. The financial projections included in this document do not constitute forecasts or budgets; they 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 also disclaims any obligation to update forward-looking statements, as a result of new information, future events or otherwise. The contents of this document should not be construed as any form of advice or recommendation to purchase or sell any security or funds. It does not replace a prospectus or any other legal documents, which 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 their 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 carefully read the risk warnings and the regulations set out in the prospectus or other legal documents and are advised to seek professional counsel from their financial, legal and tax advisors. The tax treatment of any investment in the Fund depends on the investor's individual circumstances and may be subject to change in the future. This document should not be deemed an offer nor a solicitation to buy, subscribe to, or sell any currency, funds, products, or financial instruments, to make any investment, or to 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 solicitation. Telephone calls to the telephone number stated in this presentation may be recorded. UBP will assume that, by calling this number, you consent to this recording.

Any subscriptions not based on the funds' latest prospectuses, KIIDs, annual or semi-annual reports or other relevant legal documents (the "Funds' Legal Documents") shall not be acceptable. 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, Switzerland (UBP), from UBP Asset Management (Europe) S.A., 287-289 route d'Arlon, 1150 Luxembourg, Grand Duchy of Luxembourg, and from Union Bancaire Gestion Institutionnelle (France) SAS, 116 avenue des Champs-Élysées, 75008 Paris, France. The Swiss representative and paying agent of the foreign funds mentioned herein is UBP. The Funds' Legal Documents may be obtained free of charge from UBP, as indicated above.

This content is being made available in the following countries:

Switzerland: UBP is authorised and regulated in Switzerland by the Swiss Financial Market Supervisory Authority (FINMA). The head office is Union Bancaire Privée, UBP SA, 96-98 rue du Rhône, P.O. Box 1320, 1211 Geneva 1, Switzerland. ubp@ubp.com | www.ubp.com

United Kingdom: UBP is authorised in the United Kingdom by the Prudential Regulation Authority (PRA) and is subject to regulation by the Financial Conduct Authority (FCA) and limited regulation by the PRA.

France: Sales and distribution are carried out by Union Bancaire Gestion Institutionnelle (France) SAS, a management company licensed with the French Autorité des Marchés Financiers, - licence n° AMF GP98041 ; 116, av. des Champs Elysées | 75008 Paris, France T +33 1 75 77 80 80 Fax +33 1 44 50 16 19 www.ubpamfrance.com.

Hong Kong: UBP Asset Management Asia Limited (CE No.: AOB278) is licensed with the Securities and Futures Commission to carry on Type 1 – Dealing in Securities, Type 4 – Advising on Securities and Type 9 – Asset Management regulated activities. The document is intended only for Institutional or Corporate Professional Investor and not for public distribution. The contents of this document have not been reviewed by the Securities and Futures Commission in Hong Kong. Investment involves risks. Past performance is not indicative of future performance. Investors should refer to the fund prospectus for further details, including the product features and risk factors. The document is intended only for **Institutional Professional Investor** and not for public distribution. The contents of this document and any attachments/links contained in this document are for general information only and are not advice. The information does not take into account your specific investment objectives, financial situation and investment needs and is not designed as a substitute for professional advice. You should seek independent professional advice regarding the suitability of an investment product, taking into account your specific investment objectives, financial situation and investment needs before making an investment. The contents of this document and any attachments/links contained in this document have been prepared in good faith. UBP Asset Management Asia Limited (UBP AM Asia) and all of its affiliates accept no liability for any errors or omissions. Please note that the information may also have become outdated since its publication. UBP AM Asia makes no representation that such information is accurate, reliable or complete. In particular, any information sourced from third parties is not necessarily endorsed by **UBP AM Asia**, and **UBP AM Asia** has not checked the accuracy or completeness of such third party information.

Singapore: This document is intended only for accredited investors and institutional investors as defined under the Securities and Futures Act (Cap. 289 of Singapore) ("SFA"). Persons other than accredited investors or institutional investors (as defined in the SFA) are not the intended recipients of this document and must not act upon or rely upon any of the information in this document. The financial products or services to which this material relates will only be made available to clients who are accredited investors or institutional investors under the SFA. This document has not been registered as a prospectus with the MAS. Accordingly, this document and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of this product may not be circulated or distributed, nor may the product be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to institutional investors under Section 274 or 304 of the Securities and Futures Act (Cap. 289) of Singapore ("SFA"), (ii) to relevant persons pursuant to Section 275(1) or 305(1), or any person pursuant to Section 275(1A) or 305(2) of the SFA, and in accordance with the conditions specified in Section 275 or 305 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA. This advertisement has not been reviewed by the Monetary Authority of Singapore.

MSCI : Although Union Bancaire Privée, UBP SA information providers, including without limitation, MSCI ESG Research LLC and its affiliates (the "ESG Parties"), obtain information from sources they consider reliable, none of the ESG Parties warrants or guarantees the originality, accuracy and/or completeness of any data herein. None of the ESG Parties makes any express or implied warranties of any kind, and the ESG Parties hereby expressly disclaim all warranties of merchantability and fitness for a particular purpose, with respect to any data herein. None of the ESG Parties shall have any liability for any errors or omissions in connection with any data herein. Further, without limiting any of the foregoing, in no event shall any of the ESG Parties have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.