Q2 2023

UBAM - GLOBAL FINTECH EQUITY

Quarterly Comment

Marketing Communication
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Market Comment

- Over Q2 2023, global equity markets delivered strong results with the MSCI AC World up +6.2%. Japanese equities gained +14.2%, US equities +8.3%, Emerging Market equities +2.3%, Swiss Equities +2.2% and European equities +0.9%.
- In June, inflation figures remained resilient which led central banks to keep a hawkish stance. In the US, while the yearly headline inflation trend was down from +4.9% to +4.0%, core inflation only decreased moderately from +5.5% to +5.3% y/y and the 2023 outlook for core PCE was revised up from +3.6% to +3.9%. Key rates did not change, but Chairman Powell mentioned potential further hikes in the coming months – though at a slower pace. In the Eurozone, the outlook on inflation was revised up for the next 3 years, especially for core inflation from +4.6% to +5.1% for 2023. Key rates increased by +25bps as expected and the ECB mentioned that rates should be brought to sufficiently restrictive levels to meet the 2% inflation target indicating further hikes. Business sentiment weakened further with the US Manufacturing PMI decreasing from 48.4 in May to 46.3 in June. The Eurozone Manufacturing PMI also declined from 44.8 to 43.6.
- Over the quarter, EPS growth projections for global equities remained steady at 0% for 2023 and declined slightly to around 10% for 2024. Global equities' 12m forward PE increased to 16.2x, just above the long-term average, but with big differences across sectors and regions. US equities are now trading at an all-time high premium versus global equities after the re-rating of growth stocks and mega caps.
- Over Q2, IT was the major contributor to the MSCI AC World's performance. Consumer Discretionary and Financials sectors contributed as well whereas Materials detracted slightly. The Fintech thematic (Global Fintech ETF) gained +6.3% over the quarter, in line with the larger global equity universe. Names like Bill Holdings, Xero and Sofi Technologies were among the largest performance contributors over the quarter, while PayPal, Lufax and Nuvei were among the largest performance detractors.

Performance Review

- UBAM - Global Fintech Equity delivered +5.0% versus +6.2% for the MSCI AC World over Q2 2023 and +6.3% for the Fintech thematic (Global Fintech ETF). YTD, the fund is up +15.3% compared to +13.9% for global equities and 14.9% for the Global Fintech ETF.
- The main contributors to relative performance versus the benchmark over the period were the overweights in Transunion, S&P Global and Verisk Analytics (+71bps, +63bps and +51bps respectively). Transunion was up +26.2% in Q2 on better than expected Q1 results driven by their International business and a continued healthy consumer in the US. The company also expressed confidence in achieving their FY23 guidance despite a slightly lighter Q2 2023 outlook. After a slow start to the year, S&P Global gained +16.6% in Q2 as global debt issuance volumes grew 8% y/y in the quarter, inflecting positively from a 15% decline in Q1. Verisk Analytics' share price jumped on much better than expected organic revenue growth in Q1 2023 and significant progress in its operational transformation. The stock ended the quarter up +18.0%.
- The main performance detractors over the quarter were the overweights in MSCI and Nasdaq as well as the absence of exposure to Nvidia (-155bps, -85bps and -52bps respectively). MSCI was down -15.9% over the second quarter with most of the drop occurring on the day of their Q1 2023 results, as revenues fell slightly short of consensus expectations and investors remain concerned about the company's asset-based fee business as well as a slowdown in growth in their ESG & Climate business. Nasdaq lost -8.4% over the quarter. It's shares dropped -12% in one day in June on the back of the announced $10.5bn acquisition of risk management and regulatory reporting software provider Adenza from Thoma Bravo (private equity). While the deal is attractive on margin, growth and mix (away from market revenues), it burdens the company with 4.7x net debt/EBITDA initially. The higher margins of Adenza and the faster growth allow for reaching 55% CFROI® (Cash Flow Return on Investment. Source: Credit Suisse HOLT) in 2024 compared to 46% standalone. Despite 17% higher share count, the price target would increase by 6%. Nvidia gained +52.3% in Q2. Its shares jumped in Mai after reporting immediate benefits from AI related sales and orders for their Graphic Processor Units (GPUs), which are used for training AI models. The company's CFROI® is forecasted to improve significantly, however, it has a cyclical past, where just a year ago a $1bn writedown on inventories was necessary and the shares dropped more than 60% at one point during 2022.

Portfolio Activity and ESG

- Over Q2, no major changes were done in the portfolio.
- ESG considerations are fully integrated in each step of the fundamental investment process with a focus on a lower carbon risk objective. At the end of June 2023, the portfolio had an A ESG rating with an ESG quality score of 7.0, versus a AA rating and 6.8 score for the MSCI AC World (ratings based on MSCI ESG Research). The portfolio's weighted average carbon intensity is much lower than the wider global equities universe with 5.6 tons CO2e/$m sales vs 139.1 tons for the MSCI AC World index.

Outlook

- The current context of slowing producer and consumer sentiment has put pressure on global corporate earnings for 2023, and while GDP forecasts are pointing to a growth recovery later in 2023 and for 2024, manufacturing PMIs are weakening, leading to some uncertainties for the remainder of the year.
- Within this context, the Global Fintech Equity strategy is well positioned as it remains focused on value creative companies with visible earnings trajectories. While especially the consumer exposed payment companies could see temporary weakness in a more subdued economic environment, the longer-term structural growth trends are still valid and average valuations in the Fintech space continue to be reasonable.

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