UBAM – MULTIFUNDS FLEXIBLE ALLOCATION

Quarterly Comment | Q2 2023

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The classification of the fund(s) as per the Sustainable Finance Disclosure Regulation (SFDR) is available on ubp.com or in the latest prospectus

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.
- The Federal Reserve (Fed) raised interest rates by 25 bps in May. However, it did not hike rates in June, adopting a hawkish pause. The rate predictions indicated two further rate rises in 2023. There were some concerns around US debt ceiling at the beginning of the second quarter. However, US Congress approved a legislation that suspended the debt ceiling in the first days of June, in a deal that included concessions on spending expected to have little effect on economic growth.
- The European Central Bank (ECB) raised interest rates twice in the quarter, taking the main refinancing rate to 4.0%. Headline inflation declined during the period, with annual inflation estimated at 5.5% in June, down from 6.1% in May. However, the core inflation rate went up to 5.4% in June. The eurozone composite purchasing managers' index (PMI) fell to 50.3 in June from 52.8 in May.

Sources: UBP, Bloomberg Finance LP.

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.

Performance Review

- The second quarter of 2023 saw positive absolute returns of 2.69% (USD, Institutional share class). Performance relative to the composite benchmark was only slightly negative over the quarter.
- Being underweight equity did cost.
- Within fixed income our EMD stance proved positive. Regarding equities, our overweight in Emerging Markets equities contributed negatively.
- Regarding fixed income, emerging debt and credit strategies had a strong positive effect while government bonds detracted from performance. Within equities, style allocation was positive, with quality strategies posting positive performance.
- With regard to fixed income, manager selection was flat and positive for our emerging debt strategies. Within equities, manager selection was negative with no major outlier.

Portfolio Activity

- During the quarter, portfolio activity was low as preference was maintained to capitalise on a conviction-based portfolio.
- We increase quality style while slightly reducing other positions. Valuation have come down and we saw a good entry point
- During the second quarter we bought the MSCI USA Quality factor in order to increase our quality stance in the USA.

Sources: UBP, Bloomberg Finance LP.

Outlook

- As experienced in May, US base rates continued increasing in June on the back of US strong activity indicators especially in the services sector. We continue being of the view that we are at the end of FED's hiking cycle, and the main part of US base rates adjustment is behind us. Consequently, US base rates should be supportive of hard currency fixed income returns during the rest of the year.

- Besides with the US debt ceiling agreement reached recently, a big source of volatility is behind us, and investors' risk appetite has returned leading to a very good performance of DM and EM equities, EM FX, EM sovereign and corporate debt.

- It is worth highlighting that we are seeing a decoupling in DM vs EM inflation dynamics and central banks' actions and guidance. In EM countries there are clear signs of inflation subsiding with central banks pausing and heading into the start of an easing cycle in the short term, while in DM central banks continue with a hawkish stance as inflation dynamics are still not that positive and above targets. As inflation falls, high real rates and FX appreciation should give EM central banks space to cautiously ease policy starting in 2H23.

- 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 strategy is well positioned. It focuses on managers benefiting from active stock selection of high-quality companies demonstrating a solid and visible earnings outlook for the rest of the year. In an easing, but still high inflationary environment, the funds in which the strategy invests have strong fundamentals: low debt levels, solid balance sheets, strong pricing power and good ESG practices. Moreover, the strategy is exposed to structural growth trends such as electrification, AI or healthcare. This should be supportive for the expected growth recovery in 2024.

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