UBAM – SWISS EQUITY

Quarterly Comment

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

- Despite the relief recorded over the month of March, global equity markets ended the first quarter of the year in the red with the MSCI AC World down -5.4%. US equities lost -4.9% over the quarter, followed by European and Swiss equities with -5.5%, and Emerging Markets equities with -6.3%. While Swiss equities were in line with global markets over the period, they nevertheless showed better performance since the start of the Russia / Ukraine war with +5.5% for the SPI versus +4.6% for the MSCI AC World since February 24th.
- At the end of the quarter, the global earnings revision ratio fell into negative territory for the first time since June 2020. 2022 earnings growth expectations now stand at around 9% across regions. The 12m forward PE ratio for global equities fell to 16.5x at the end of Q2, slightly above its long-term average. While the US labor market data could be seen as an overheating signal coupled with CPI inflation at 7.5%, US GDP is expected to grow a solid 3% for 2022, and ISM is still printing at high levels, 57 for end of March. This still provides a constructive environment for companies which can pass on higher commodity prices and labor costs to customers. In line with expectations, the Fed raised key interest rates by 25bps, for the first time since 2018, with 6 remaining hikes projected for the year.
- Inflation remained sustained in Switzerland at 0.6% m/m increase in March vs 0.7% for the previous print. The yearly trend modestly accelerated from 2.2% to 2.4% at the end of the quarter. The Swiss Franc hovered around parity to the Euro, proving its safe haven status in volatile periods. The Swiss National Bank has decided to maintain its current policy with key rates at -0.75%, reiterating its views on intervening, if necessary, on the currency. The SNB has however revised down its 2022 growth expectations from 3% to 2.5% and revised upwards its inflation forecast from 1% to 2.1% for 2022. Swiss equities are nevertheless still expected to deliver resilient and visible earnings growth with an expectation of 12% for 2022 and 9.9% for 2023. Switzerland benefits from a well-balanced geographic exposure with 90% of corporate revenues generated abroad, along with a low dependency to Russia in its exports / imports as well as its energy mix.
- At the end of Q1, Financials, Communication Services and Real Estate were the top contributing sectors to the SPI's performance. Industrials, Consumer Staples and Materials were the bottom contributing sectors on the other hand. Novartis, Zurich Insurance and UBS were top performing names over the period, while Nestlé, Richemont and Sika were the worst.

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 – Swiss Equity delivered -11.8% in gross performance over Q1 2022, versus -5.5% for the SPI. Both sector allocation and stock selection contributed negatively to relative performance (-1.6% and -4.7% respectively). The selection effect in the Healthcare sector, with names like Bachem and Straumann pressured by profit taking having been strong performers in 2021; as well as the overweight allocation in Industrials, which underperformed the rest of the market; were major detractors of performance over the period.
- In Q1, the biggest contributors to relative performance were the overweight in Zurich Insurance, the absence of exposure to Credit Suisse as well as the overweight in Leonteq (+18bps, +13bps and +12bps respectively). Zurich Insurance was up +14% over the period after announcing strong results for 2021, that came above consensus expectations with net income increasing by 36%. Credit Suisse lost -17% in Q2 as it posted a wider than expected USD 2.2bn quarterly losses and warned of continued headwinds in 2022 due to high restructuring and compensation costs. Leonteq was up more than +7% following a good set of 2021 results including operating income that beat expectations.
- The main detractors of relative performance over the period were the underweight in Novartis and UBS, as well as the overweight in Partners Group (-73bps, -54bps, -50bps respectively). Novartis delivered +5% over the quarter after underperforming the market in 2021. The name benefited from the news of a USD 1.7bn deal with Voyager Therapeutics for gene therapy programs, as well as reporting on improving Q4 results. UBS's share price appreciated +10% as it posted Q4 profits that came ahead of expectations, along with ambitious new earnings targets. Partners Group lost more than -23% over the period despite reporting results for FY2021 that beat consensus on the back of strong performance fees (46% of total revenues). However, it guided for a normalisation of performance fees after a solid 2021.

Portfolio Activity and ESG

- Over the first quarter of the year, three new positions were initiated in the portfolio. In February, the team decided to enter new positions in Richemont and UBS. Expectation of easier travel and pent-up demand for travel, spending and entertainment should support hard luxury consumption in the short term. Richemont's decision to move away from their online forays should enable the company to return to more sustainable and attractive levels of CFROI®. UBS has delivered a series of improved quarterly performances and has benefitted from strong market activity. With strong management in its wealth management segment, the team finds the investment case to be attractive in the current macro environment. On the other hand, the position in Galenica was liquidated as Covid-19 tailwinds the company benefited from in 2021 with testing services and solutions, are expected to diminish in 2022. In March, a new position was initiated in Lindt. The largest premium chocolate company worldwide benefits from a very strong balance sheet and high customer loyalty while being respectful in its strategy of all stakeholders, all of which feeds into a CFROI® which is once again above 10%. Lindt should prove to be a defensive investment in the current environment.

- At the end of March 2022, the portfolio had an ESG Quality Score of 8.1, with an AA rating versus 7.75 for the SPI with an AA rating (based on MSCI ESG Research ratings). The Swiss Equity portfolio follows a strict exclusion policy.

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It does not hold any position identified as being in violation of international standards by both data providers MSCI ESG Manager and Sustainalytics. The portfolio has more than 60% lower carbon footprint than its benchmark with 37.5 tons of CO_2/\$m sales vs 101.4 tons of CO_2/\$m sales for the SPI.

Outlook

- As the global economy braces for accelerated monetary tightening on the back of a higher for longer inflation scenario, the prospects of a growth slowdown, notably in Europe, combined with the Russia/Ukraine war weighed on investor confidence at the end of the first quarter of 2022. Multiple compression in Europe and the US has sent equity markets back to pre-pandemic valuation levels. While corporates on average are still boasting solid balance sheets, the recent strong order intake will be scrutinized for potential demand destruction from high commodity prices and deteriorating confidence
- Switzerland has proven its resilience in previous periods of economic and geopolitical instability and is expected to continue delivering on superior levels of value creation amidst the challenges ahead. The Swiss equity strategy has been positioned accordingly, by modestly diversifying to short term beneficiaries in the defensive end of the consumer and financials sectors, and remains focused on value creative companies, with visible earnings trajectory, as well as high pricing power. Such companies are expected to weather better the potential volatility linked to the changing economic backdrop.

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