Q4 2020

UBAM (CH) – SWISS EQUITY

Quarterly Comment

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Market Comment

- In Q4, all major equity markets posted strong positive returns. The MSCI AC World finished up +14.7%. At regional level, emerging equities were up +19.7%, US equities +12.1%, Japanese equities +11.2%, and European equities +10.8%. As for Swiss equities, the SPI was up +4.7% and the SPI Extra ended Q4 2020 at +8.9%. In 2020, the SPI and the SPI Extra have returned +3.8% and +8.1% respectively, whereas the MSCI AC World was up +16.3%.
- In anticipation of an economic recovery in 2021, global equities achieved positive returns despite the second wave of the pandemic and the successive announcements of renewed restrictions across Europe and the United States. The positive news flow around successful Covid-19 vaccine trials led to a cyclical recovery benefiting sectors that had been severely hit by the pandemic. The results of the US election as well as the announced extensions of supporting policy measures in the US and in Europe further fueled market performance.
- 12-month forward earnings estimates were upgraded in all major regions over the last month of the year, with the earnings revisions ratio turning slightly positive everywhere. At the global level, earnings momentum remained the strongest for the cyclical sectors, in particular materials, consumer discretionary and financials. Among the major markets, 2021 EPS growth rate estimates range from +16% for Switzerland to +48% for the eurozone, with the US towards the low-end of the range (+20%) and emerging markets in the middle (+34%), though with sharp disparities between countries. The major valuation metrics for global equities moved up over the quarter. Global equities' 12m forward PE edged up to 19.9x, only marginally lower than back in August, the price-to-book ratio rose to 2.4x – its highest level since 2007 – and the 12m fwd ROE continued to move higher, too.
- In Switzerland, business sentiment decreased over the quarter. However, after having been revised down for two consecutive months, both KOF and PMI indicators unexpectedly improved in December, pointing towards firmer activity. At the end of the quarter, GDP growth forecasts for 2021 have been revised down to +3% (from +3.8% back in October) given the renewed deterioration in the economic situation as a result of the second wave of the pandemic. While the average inflation rate for 2020 remained in negative territory at -0.7%, the Swiss State Secretariat for Economic Affairs (SECO) revised its 2021 inflation expectation slightly upwards to +0.1% (from -0.1% back in October).
- Over the fourth quarter of 2020, most sectors contributed positively to the SPI's performance. Cyclical sectors like Financials, Consumer Discretionary and Industrials added the most while Consumer Staples and Communication Services detracted. In terms of single names, the best contributors were Richemont, UBS and Novartis, while Nestlé, Roche and Givaudan detracted the most.

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

- Over Q4 2020, UBAM (CH) - Swiss Equity delivered +4.9% in gross performance versus +4.7% for the SPI. For the full year, the fund returned +6.6% or +2.8% in gross excess return over the benchmark. Over Q4, the positive contribution of the sector allocation to excess returns (+71bps), was partly offset by stock selection (-60bps). The allocation effect was particularly positive in the Consumer Staples and Financials sectors, adding +38bps and +19bps respectively. Though, the allocation effect in Financials was offset by the selection effect that detracted -59bps.
- In terms of individual names, the best relative contributors over the quarter were the underweight in Nestlé (+46bps), as well as the overweights in Partners Group and VAT (+39bps and +27bps respectively). The forced underweight in Nestlé proved beneficial as the defensive name suffered from the heavy rotation towards cyclical stocks observed in Q4 and was down -4.6%. Partners Group was up +22.7% in Q4, as the good performance of financial markets clearly benefited their AUMs and performance fee outlook. VAT was up +25.4% over the quarter due to the very robust demand environment in the semiconductor industry. The biggest relative detractors over the quarter were our absence from Richemont (-56bps), UBS (-53bps) and Credit Suisse (-28bps) as the three stocks were up +29.8%, +21.1% and +23.3% respectively, benefiting from the rotation into cyclicals driven mainly by the vaccine news.

Portfolio Activity

- No major changes were done on the portfolio level over the month of October.
- In November a position was initiated in Vontobel on the company's good Q3 results. Vontobel enjoyed strong net new money growth in both its Wealth and Asset Management divisions and managed to convert these newly gained assets into profitable investment products.
- In December, the team started to build a position in Aluflexpack after the company delivered impressive Q3 sales growth numbers and announced a new capex programme that should ensure growth beyond 2022. The team took advantage of weakness in the share price of AMS AG to build another new position in the name. While there are continued worries that AMS could lose some of its Apple business, they are the first mover in combining illumination and sensing technologies which could open new addressable markets for them leveraging on Osram's existing relationships with major automotive OEMs and tier 1 suppliers. Finally, a position was initiated in SFS Group given its improved outlook for 2020 and 2021, notably in automotive. On the other hand, the position in Barry Callebaut was sold given the continued difficult environment and low visibility for their high-margin Gourmet business.

Outlook

- Our base case for global equities remains an expected market return of around 10% in 2021, driven by substantial EPS growth from 2020's depressed levels but some multiple reversion towards longer-term averages from currently rather elevated levels. We are looking for a slow return to normal life, but the path back to growth could be quite diverse regionally, depending on the persistence of the second wave of Covid-19 infections and concurrent confinement measures by governments.
- We tend to focus on the value creation potential of different industries and individual companies rather than sector allocation, as value creation is a primary driver of long-term equity performance. In the current environment we favor stocks that continue to be supported by long-term structural trends while they should also benefit from the global growth recovery expected next year.

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