



UBAM - 30 GLOBAL LEADERS EQUITY

Quarterly Comment | Q1 2019

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

Market Comment

- ◆ The MSCI AC World rallied close to 12% over the first quarter of the year, erasing most of the Q4 2018 correction. At the end of Q1 2019, US, Swiss and Chinese equity markets led major indices with the S&P 500 up 14.5%, the SPI and the HSI index each up 14.4%. European equities also ended the quarter in green with the Stoxx 50 up nearly 13%.
- ◆ The quarter finished on a strong note despite cautious news flows with mixed macroeconomic data and more dovish central banks worldwide. The US Fed announced a shift to a more accommodative policy and kept interest rates unchanged in times of moderating growth and inflation on top of weakening domestic demand. This pushed the yield on 10-years treasuries to below the rate on 3-month money for the first time since 2007. US GDP growth was revised downward for 2019 from 2.3% to 2.1% and 2020 growth is now below 2% at 1.9%. Q1 earnings growth forecasts for S&P 500 companies were also revised down to -3.7% after positive earnings growth in 2018 when corporations profited from tax cuts. Companies also reported tighter labor market conditions causing some pressure on wages.
- ◆ Similar to the FED, the ECB announced keeping rates on hold for the rest of the year. The German 10-year bond yields dropped below 0% for the first time in over two years while the country's manufacturing PMI fell to 44.7, the lowest since 2012. The Swiss National Bank likewise kept interest rates unchanged at -0.75% and cut its inflation forecast again on global growth slowdown. The KOF leading indicator recovered to 97.4 at the end of March sending a signal of stabilizing business sentiment in Switzerland. While earnings expectations worldwide were revised further down, 2019 earnings growth expectations for the SPI continue to be at mid-single digit level (6-8%) with potentially higher figures for the SPI Extra (8-10%).
- ◆ March was marked by a sector rotation when defensives turned positive. All sectors of the MSCI AC World finished the first quarter in green, with the strongest sectors being IT, Real Estate and Energy. Global equities' multiples have expanded over Q1 2019 after a sharp compression in Q4 2018: the forward PE ratio increased to 14.8x for the MSCI AC World at the end of March versus 13x at the end of 2018. The valuation remains however slightly below the long term average of 15.8x. All-in-all, the MSCI AC World performance of 12% YTD is underpinned by around 5% EPS growth expectations and 3% dividend yield in 2019.

Performance Review

- ◆ UBAM - 30 Global Leaders Equity returned 16.1% in gross return over first quarter of 2019, outperforming the MSCI AC World NR index by 3.9%. Over one year, the fund has cumulated 8.1% of excess return versus its benchmark.
- ◆ Good stock selection over the quarter has been the main contributor to excess return with more than 4%, whereas sector allocation was slightly negative with -9bps. This stock selection was mainly linked to the Healthcare sector and added 1.3% in excess return over the quarter, followed by the Industrials sector with 1.0% contribution. The absence of exposure in the Real Estate and Energy sectors detracted 12bps and 11bps as both sectors were up 16.1% and 13.5% respectively over the quarter.
- ◆ In terms of individual stocks, the overweights in Roper Technologies, Danaher and Estee Lauder were the top contributors to relative performance over Q1 2019 (54bps, 52bps and 43bps respectively). Roper was up 28.5% over the quarter after a set of strong Q4 2018 earnings where EPS grew 25% with an organic revenue growth of 8% versus 5% guidance. Danaher was also up 28.1% over the quarter after reporting solid FY2018 results: 7% increase in net earnings with a positive 2019 guidance. Estee Lauder reached close to +28% stock price appreciation over the quarter as the company reported profit that beat estimates. The results showed a bright outlook for 2019 driven by Asia and Europe as the most profitable regions and skincare as the fastest growing segments.
- ◆ The main detractor of performance over Q1 2019 was the overweight in Booking Holding, Air Liquide and McDonald's (-33bps, -19bps and -17bps respectively). These names were slightly lagging in performance in the YTD rally (+1.3%, +2.7% and +7.4% in a market that was up 12%). Booking's share price weakness reflected some of the worries over the European slowdown and the Brexit. The company reported Q4 2018 results that missed analysts' estimates. Air Liquide also struggled over the quarter after brokers downgraded their estimates for the name, based on European and global weakness in PMIs. McDonald's underperformed its average sector over the quarter after it announced a 3.3% decline in revenues for Q4 18 YoY despite beating EPS estimates for the quarter.

Portfolio Activity

- ◆ During the quarter, no major changes were done on the portfolio level.

Outlook

- ◆ Concerns over a marked slowdown in GDP growth, especially in Europe, Brexit and rhetoric of the US and China regarding trade, continue to dominate the macroeconomic environment. A potential return to a global "Goldilocks" economy, marked by moderate but steady GDP growth and low inflation allowing a market-friendly monetary policy, has historically proven to be a favourable environment for equity investments.
- ◆ Over the shorter term however the team is concerned that the recovery rally from the December lows has over-extended itself and would not be surprised to see a modest correction in the second quarter of the year. While a return of volatility spikes is still expected for 2019, UBAM - 30 Global Leaders Equity is well positioned with a quality bias to limit the downside risk while still participating in periods of upside.

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