

UBAM - GLOBAL 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 volatility brought by the banking sector fallouts over the month of March, major equity markets still delivered positive performances over the first quarter of 2023. Driven by a strong start of the year with receding recession fears and overall easing inflation prints, the MSCI AC World finished Q1 up +7.3%, with European equities gaining +8.6%, US equities +7.5%, Japanese equities +7.1%, Swiss equities +5.9% and Emerging Market equities +3.9%.
- Major central banks maintained their tightening stance announcing rate hikes during the month of March, confirming their confidence in the resilience of the banking sector. Balancing between price stability and financial stability, the Fed raised key rates by 25bps on the back of modest growth, high inflation, and ongoing job gains. The ECB also raised rates by 50bps citing inflation concerns. Interestingly, despite less pressure to combat inflation in Switzerland, which currently stands below 3%, the SNB chose to lift rates by a further 50bps in March. This underlined the strength of the economy, as the hike was initiated the same week as Switzerland saw one of its two systemic banks be taken over.
- The global earnings momentum continued to deteriorate with 2023e EPS growth falling to 0.2% for global equities (-0.5% for Europe) at the end of March as the tensions in the banking system again increased the odds of a recession in the coming quarters. The 12m forward PE ratio for the MSCI AC World traded around 15.2x, below its long-term average, at the end of the quarter. Helped by declining energy prices, the US headline inflation eased to 5.6% yoy for the end of March, with the Eurozone yearly inflation trend also slowing to 6.9% for March. The US Manufacturing PMI came in slightly higher in March at 49.2 vs 47.3, with sentiment increasing on production and employment. The Eurozone Manufacturing PMI came in slightly lower for March at 47.3 vs 48.5 for the prior print, but better than the 47.1 expected, with sentiment decreasing on production, new orders, and exports.
- Over Q1, IT, Consumer Discretionary and Communication Services were the best contributing sectors to the MSCI All Country World's performance whereas Health Care, Energy and Financials were the main detractors. Top contributing names over the period were Apple, Microsoft and Nvidia while Pfizer, UnitedHealth and Johnson & Johnson were at the bottom. Growth and Quality were the best performing investment styles over the quarter, while Momentum and Value styles underperformed the broader MSCI AC World index. The 2023 earnings growth expectations for Value stocks stood at -2% vs +9% for Growth stocks.

Performance Review

- UBAM – Global Equity delivered +4.0% in gross performance over the first quarter of the year vs +7.3% for the MSCI AC World. Both stock selection and sector allocation had negative contributions to the quarterly performance of the portfolio (-1.4% and -2.2% respectively), whereas the currency effect had a positive effect (+33bps mainly from the overweight in Europe).
- The main contributors to performance in Q1 were the overweights in LVMH, Schneider Electric and Novo Nordisk (+44bps, +31bps, +30bps respectively). LVMH appreciated +26.4% over Q1 after reporting a 9% increase in sales driven by growth in Europe, US and Japan which offset the weakness in China. The group further announced a €1.5bn share buyback program. Schneider Electric was up +19.7% YTD after beating FY22 sales and earnings expectations with 16% organic growth reported over Q4 2022. The company guided for a continuation of strong market demand for 2023 supported by electrification and digitalisation trends. It also announced a new governance structure with the appointment of a new CEO, thus separating the CEO from the Chairman role. Novo Nordisk gained +18.3% over the period after reporting the fourth consecutive set of quarterly results that came ahead of expectations driven by its obesity treatment offering. The company also delivered a positive guidance for 2023 and announced a new share buyback program.
- The main performance detractors over Q1 were the overweight in UnitedHealth, the absence of exposure to Nvidia as well as the overweight in Pfizer (-59bps, -53bps and -51bps respectively). UnitedHealth lost -10.6% over the quarter despite reporting Q4 results that beat estimates and reiterating full-year guidance, which was however viewed by some analysts as conservative. Nvidia gained +90.1% as it is seen as the main beneficiary of AI developments by many. The company also announced results and guidance that topped expectations. Pfizer dropped -19.9% as it reported net income and guidance that missed consensus estimates and investors continue to be concerned about the sustainability of its Covid vaccine revenues.

Portfolio Activity and ESG

- Over the first quarter of the year, the team initiated a position in Equitable Holdings on positive expectations that its results would look resilient given the more supportive market environment in the fourth quarter. The stock has held up better than originally expected during the 2022 volatility, but maintains gearing to markets and solid upside on 5.5x 2023 EPS. RELX, a global provider of information-based analytics and decision tools for businesses and academia with a high degree of repeat business, was also introduced to the portfolio offering 25-30% CFROI® levels.
- On the other hand, the team sold the position in Pfizer, where consensus still includes USD 20bn COVID revenues in estimates, which the team believes are unlikely to be achieved. The positions in Aroundtown and LEG Immobilien were also liquidated on concerns around the impact of higher interest rates on real estate companies in Germany.
- ESG considerations are fully integrated in each step of the fundamental investment process with a focus on a lower carbon footprint objective. At the end of March 2023, the portfolio had a AAA ESG rating with an ESG quality score of 8.97, versus a AA rating and 7.9 score for the MSCI AC World (ratings based on MSCI ESG Research). The portfolio's weighted average carbon intensity is much.



lower than its benchmark's with 33.7 tons CO2/\$mn sales vs 149.6 tons for the MSCI AC World index

Outlook

- Despite some volatility and headwinds during the first quarter of the year as well as further downgrades to the global earnings picture, global equities have gained +7.3% in performance. Looking into the second quarter of the year, the team would expect companies to execute well on their existing order books under more favourable conditions: supply chains have eased, transport costs and energy costs started falling, and wage cost inflation seems to be generally covered by price increases of goods and services. Investors should also start to look toward 2024 earnings as we move through the year, where over 10% EPS growth and reasonable valuations still provide attractive investment opportunities. The Global Equity strategy continues to focus on companies with visible earnings trajectories, which are expected to deliver strong performances as the market looks towards 2024 earnings and GDP growth momentum.

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