Q1 2024

UBAM - TECH GLOBAL LEADERS EQUITY

Quarterly Comment

Marketing Communication
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Market Comment

- Supported by optimism around a softer landing in the US, the AI hype and soon to come interest rate cuts, equity markets continued their climb in Q1 2024, with many of the main indices making new all-time highs. In March, performance drivers started to broaden with energy and banks contributing positively, as investors were looking for attractively priced areas of the market away from the diverging "Mag 7". The MSCI AC World rose +8.1% over the quarter, with Japanese equities up +17.3%, US equities +10.6%, Swiss equities +6.0%, European equities +7.6%, and Emerging Market equities +2.1% (performances as of 28.03.2024, in local currencies).
- US GDP growth for Q4 23 came in slightly above estimates at 3.4% qoq but showed some slowdown from the previous quarter. Activity is expected to moderate in Q1 2024, but average growth for the full year should remain in a 2%-2.5% range after 2.3% in 2023. This would support the soft-landing scenario as US consumers continue to benefit from a tight employment market. The US Fed announced no change in key rates during their March meeting, as inflation remained elevated coupled with solid activity and strong labour indicators. The US yearly inflation trend increased for end of February from 3.1% to 3.2%. In a similar move, the ECB kept interest rates unchanged in March and cut its 2024 inflation forecast to 2.3%. The yearly headline inflation print for the Eurozone fell slightly in February, but core inflation remained above 3% yoy. Manufacturing PMI for the Eurozone came in better than expected at 46.1 for March, with less pronounced negative business sentiment and improving confidence about the economic recovery.
- At the end of the quarter, EPS growth expectations for US equities stood at 10% for 2024 compared to 9% for global equities, with valuation edging slightly higher to 20.9x fwd PE ratio vs 17.9x for the MSCI AC World. This rerating continues to be mainly driven by the large cap US tech companies, that are still gaining in weight in the indices, and boast high profitability and earnings growth. Nevertheless, the dominant "Mag 7" trade continued to show divergences with Tesla and Apple posting losses YTD.
- Over Q1 2024, all sectors of the MSCI AC World except for Real Estate, delivered positive performances. The IT sector was by far the largest performance contributor YTD, followed by Financials and Industrials. Over the month of March however, Financials were the largest performance contributor. This marked the start of a broadening in the market, following the high levels of concentration that have boosted the Momentum factor so far in 2024. In terms of individual names, Nvidia, Microsoft and Meta were the largest performance contributors YTD, while on the other end of the spectrum Apple, Tesla and Adobe were the largest detractors.

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 - Tech Global Leaders Equity delivered +14.1% in gross performance in Q1 2024 versus +8.1% for the MSCI AC World and +11.7% for the MSCI AC World IT index.
- Over the first quarter of the year, the biggest contributors to performance were the overweights in Nvidia and Applied Materials as well as the absence of exposure to Tesla (+167bps, +53bps, +43bps respectively). Nvidia climbed +82% YTD after the company delivered better than expected results and issued a positive outlook for Q1 2024, putting aside supply chain and growth slowdown concerns. Applied Materials was up + 27%, on the back of another “beat-and-raise” (stronger than expected quarterly results and guidance) driven by strength in advance packaging as foundries need to order more tools to manufacture advanced chips for AI applications. Finally, Tesla share price lost -29% as the group released disappointing quarterly results and guidance in January. A global slowdown in demand for electrical vehicles, increased competition from China in particular and a volatility on models’ pricing are the main worries of investors for a stock that still trades at 60x PE.
- The main performance detractors in Q1 were the overweight Adobe, the absence of exposure to Meta and the overweight in Accenture (-76bps, -33bps and -29bps respectively). Adobe dropped -15% over the period despite releasing quarterly results ahead of the Street. However, management failed to formally reiterate the full-year guidance, which raised worries among investors in a context of rising competition from companies like Sora (OpenAI’s text to video design software). During its “Adobe Summit” held two weeks later, the company gave a more confident message around the full-year guidance and shared annual growth estimates of “low teens” by 2027 for its key divisions. Meta gained +37% as the group continues to execute seamlessly and to beat expectations despite a tougher comparison base. Importantly, the group gave more details regarding its AI goals and strategy (e.g.: in-house AI chip development, open-source platform to drive Meta ecosystem adoption etc.) in early February, reinforcing investors’ confidence that current strength is sustainable. Accenture’s stock lost -14% on the day of its quarterly release and finished the quarter down -1% as it cut its FY guidance on the back of a slower than expected IT spending recovery. Investors’ sentiment was notably dampened by GenAI new booking missing estimates during the quarter, showing that clients’ adoption may be slower than expected. On the positive side, overall bookings were strong (2nd highest quarter in history) and we are approaching the inflexion point for revenues growth after 4 quarters of deceleration.

Portfolio Activity and ESG

- Over Q1, the team reinvested in Amazon on sustained double digit top line growth and EBITDA margins trending towards 20% thanks to their cloud service AWS. This was financed by the reduction of Apple due to anticipated headwinds and an uncertain recovery in the smartphone market. The position in Oracle was reinforced over the quarter after the company posted strong accelerating growth from its cloud business (OCI) and raised expectations for 2025, on the back of a very strong RPO backlog. On the other hand, the team reduced the position in Nvidia, taking profit after the strong performance since the beginning of the year and as the company was one of the largest individual contributor to portfolio tracking error. The position in Marvell was reduced as well ahead of results, taking profit after the company re-rated on the back of hope for AI-related revenues and as it was amongst the highest contributors to portfolio tracking

error. Finally, the team reduced its position in Adobe toward the end of the quarter, ahead of its Investor Day.

- ESG considerations are fully integrated in each step of the fundamental investment process with a focus on a lower carbon risk objective. At the end of March 2024, the portfolio had a AA rating with 7.7 quality score versus A and 6.8 respectively for the MSCI AC World, as well as a lower weighted average carbon intensity than the benchmark with 12.7 tons of CO_2/$m sales vs 118.2 for the MSCI AC World index.

Outlook

- Given the prevailing market concentration levels particularly around US tech names, investors should factor in the risks of a negative market surprise linked to geopolitics and elections, interest rate moves or AI results. After 0% EPS growth delivered in 2023, the highly anticipated first earnings season of the year could bring some volatility, especially around names with extended valuation levels. We believe that investors should privilege active bottom-up strategies exposed to diversified sources of performance.
- In this context, the Tech Global Leaders strategy is well positioned. It continues to focus on quality companies benefiting from structural growth trends and offering strong fundamentals. The strategy also has a diversified exposure to a broader range of stocks in software, semiconductors and IT services while keeping selective exposure to the M7. Indeed, the portfolio excludes start-ups, profitless technology and concept stocks, and exclusively invests in companies with high and stable or growing CFROI® profiles. These tend to provide better earnings resilience and visibility. This approach aims to provide long-term investors with a balanced risk-reward profile in a structurally growing sector, with compounded performance over the cycle.

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