UBAM – MULTIFUNDS ALLOCATION RESPONSIBLE

Quarterly Comment | Q1 2024

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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.
- Following the significant rally in fixed income markets in December on the back of the shift in communication from Fed Chair Powell in particular, January saw markets in more of a holding pattern. US investment grade spreads for example were 1 bp wider on the month, whilst the European equivalent was still 6 bps tighter. Within rates markets, US 10-year yields were 3 bps higher in January, whilst German 10-year Bund yields were 15 bps higher, with curves steepening as front ends continued to outperform following less hawkish communication.
- European rates underperformed herein, as the ECB appeared less willing to commit towards an easing guidance in the near-term, although President Lagarde herself admitted at the ECB meeting that rate cuts could come as soon as the summer, whilst not closing the door to an earlier rate cut either if the data warrants.

Sources: UBP, Bloomberg Finance LP.

All performance figures are given net of fees. Past performance is not a guide to current or future returns. See full disclaimer at the end of the document.

Performance Review

- The first quarter of 2024 saw positive absolute returns. Performance relative to the composite benchmark was only slightly positive over the quarter.
- Style allocation and manager selection contributed positively.
- Within fixed income our inflation linked stance proved positive. Regarding equities, our exposure to Asian environment equities contributed negatively.
- About fixed income, manager selection was positive across the board. Within equities, manager selection was negative with no major outlier.

Portfolio Activity

- During the quarter, portfolio activity was low as preference was maintained to capitalise on a conviction-based portfolio.
- We increase quality style while slightly reducing other positions. Valuation have come down and we saw a good entry point
- During the first quarter we rebalanced the portfolio back to neutral following the rally in equities.

Sources: UBP, Bloomberg Finance LP.

Outlook

- At the beginning of 2024, major central banks were guiding towards rate cuts by the end of Q2, and therefore the focus during this quarter will be on whether the data allows them to deliver on this prior guidance. Whilst we see the path for near term rate cuts from the ECB & BoE as more likely than not given the disinflation trend being observed, there remains more uncertainty on the timing of the Fed's first rate cut amid a stronger growth backdrop and recent stickiness in inflation. Overall, we expect for the rate cutting cycle to likely be very gradual in nature when it does commence, which favours a strategic allocation to fixed income to benefit from higher yields over the medium term and taking advantage of the carry opportunity that continues to present itself today.
- One of the key developments over the last quarter was the updated economic projections released by the Fed at the March meeting. Of significance were the large upward revisions to growth, with real GDP estimated at 2.1% for this year compared to 1.4% previously. US growth is being supported by a resilient consumer on the back of tight labour markets and an improving supply-side story amid rising immigration and improving productivity. The growth upgrade was also met with a revision higher to the inflation forecasts, with core PCE for example seen at 2.6% for this year, up from 2.4% previously. Despite these hawkish revisions, the Fed left its near term guidance within the dot-plot projections unchanged, to show three rate cuts for this year, whilst it did remove one rate cut further out, resulting in the end-2026 dot to be at 3.1% compared to 2.9% previously. Fed Chair Powell also maintained his message from prior meetings by guiding towards rate cuts later this year, although requiring a couple months of more data to confirm that the disinflation trend is intact given recent disappointing readings.
- 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.

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