Q4 2024

UBAM CH - HIGH GRADE CHF INCOME

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

- In **October**, data confirmed the resiliency of the US economy and resulted in the market pricing in a less aggressive easing path for the Fed, despite the initial 50 bps cut delivered in September. Terminal rate pricing rose to 3.6% at the end of October compared to below 3% at the beginning of the month as government bond yields rose across the curve, with the 10-year US yield for example rising by 50 bps.
- Developments herein were fuelled by the economic data released which pushed back against significant slowdown concerns with the US unemployment rate declining back down to 4.1%, wage growth surprising to the upside at 4.0% and robust retail sales also confirming the strength of the US consumer. Supportive hard data also led to the Q3 GDP release in the US printing at 2.8% annualized QoQ which marks another quarter of above potential growth.
- On the other hand, the disinflation progress stalled somewhat as core PCE printed at 0.3% MoM compared to 0.1% the prior month and was unchanged at 2.7% in YoY terms.
- German Bund yields moved higher in sympathy with the US, although to a lesser extent given a less impressive growth backdrop with 10-year yields rising by 27 bps. That said, despite pessimism around the Eurozone economy, we did observe some positive surprises here also including Q3 GDP which came at 0.4% QoQ compared to 0.2% expected, whilst CPI was also firmer than the consensus and matched US core at 2.7% YoY.
- Credit markets digested the move higher in interest rates well, given that the move was driven by reduced fears around recession and allowed for USD investment grade spreads to tighten by 6 bps in October, whilst the EUR equivalent tightened by 12 bps.
- Moves herein were also supported by announcements out of China, as authorities look to finally provide more significant policy support. Whilst the total size and details remain unclear, headlines have suggested measures to support the housing market, goods consumption and infrastructure investment.
- In **November**, the focus was on the US Presidential elections, with risk markets reacting positively to the Republican sweep outcome. For example, US investment grade credit spreads managed to tighten by 4 bps, whilst the high yield equivalent tightened by 16 bps given expectations that the US economy will continue to prove resilient under the policies proposed by Trump.
- This is also coming at a time when the starting point for growth is robust, as highlighted by the Atlanta Fed's Q4 nowcast which currently sits at 3.3% in light of the higher frequency data received in October and November which

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.

have confirmed a resilient consumer. Fed Chair Powell and Governor Waller also alluded to this point, noting that the economy has held up better than they previously anticipated, with downside risks to the economy having diminished.

- Whilst the market rallied on the back of political uncertainty being reduced in the US, the opposite was observed within the Eurozone which drove an underperformance of European credit, with investment grade spreads widening by 1 bp in November, whilst high yield spreads were 24 bps wider.
- Both key pillars of the Eurozone economy in Germany and France saw political pressure rise as the German governing coalition collapsed amid differing opinions on the path for fiscal policy, whilst in France Prime Minister Barnier has been forced to step down at the time of writing, suffering a no confidence vote with his proposed budget unable to pass.
- This divergence between US and Europe was also observed within currency markets, as EUR/USD declined from 1.09 to 1.06 during the month, as well as interest rate markets, with European rates significantly outperforming, as 10 years German Bund yields declined by 30 bps on the month and the equivalent US Treasury yield declined by a lesser 11 bps.
- In **December**, with the outcome of the US Presidential elections now known, and with Trump's inauguration not until January 20th 2025, the focus in December shifted back to the economic data and the eagerly anticipated Fed meeting which included the updated dot plot projections. Whilst the Fed cut interest rates by 25 bps as expected, the communication provided was somewhat less dovish given that Chair Powell said in the press conference that it would require further progress on inflation, or a loosening of the labour market to allow for them to cut interest rates further.
- This could also be observed within their new dots, in which they forecast just two rate cuts for 2025, whilst their estimate of the long run neutral rate was revised higher once again to 3%. The driver of the dot plot shift higher appears to be both the resiliency of the growth data, coupled with the stickiness of inflationary pressures, with both revised meaningfully higher. Interestingly, there was also a large shift in the risks being observed on the inflation front with 15 members now seeing upside risks to inflation, despite the revisions higher to forecasts. Inflation data released during the month also supported this narrative as US Core CPI printed at 0.3% MoM for a fourth consecutive month which kept core CPI at 3.3% in YoY terms.
- As a result of these developments and despite the Fed cutting rates, interest rate markets saw a similar reaction to when the Fed cut rates by 50 bps in September as yields generally rose across the curve, although this was particularly striking at the longer-end as curves steepened and investors priced in a higher-for-longer interest rate backdrop. For example US 10 year yields rose by 39 bps during the month, whilst the German Bund equivalent also saw yields rise by 27 bps, with the US 2 year vs 10 year Treasury curve steepening to new highs at +33 bps.
- Credit markets remained relatively resilient despite the interest rate volatility observed, with US investment grade spreads widening by 2 bps and underperforming European spreads that tightened by 5 bps amid a less aggressive rates move in the latter.

Performance Review

- **QTD**, UBAM CH – High Grade CHF Income delivered -1.85% net of fees (IC USD). As a reference, the SBI index returned +1.39%.
- **YTD**, UBAM CH – High Grade CHF Income delivered -1.75% net of fees (IC USD). As a reference, the Global High Yield bond market returned +4.69%.

- The portfolio interest rate allocation is predominantly achieved via US rate markets and not via CHF rate markets.

- In 2024, 5-year Swiss rates rallied -71 bps from 0.8% to 0.08% on the back of easing inflation. In the meantime, inflation turned out stronger than initialiy anticipated in the US. Market participants priced out 155 bps of rate cuts during the year. 5-year US rate increased +48 bps from 3.9% to 4.3%.

- The underperformance of US rates vs. Swiss rates was -119 bps and account for the bulk of the underporformance of the fund in the 4th quarter and during the year.

Portfolio Activity

- At the end of the quarter, the carry and roll-down of the fund was 1.1% in CHF.
- The portfolio had the following allocation:
  - Interest rate exposure: 2.7 years (1.3 US and 1.4 Europe)
  - Credit duration: 4.6 years (3.6 US and 0.9 Europe)
  - Bonds in EUR: 11%

** Index provided for comparison and information purposes only.*

- In November, we took profit on our overweight credit positioning following the significant tightening that occurred post Trump's election. As a result, and as we wait for the first policy announcements that are expected in the weeks following the election, we saw the risk reward of an overweight credit position as less attractive. Our base scenario of a soft-landing, in which default rates stand to remain low, remains intact, and we would be looking to re-enter into overweight positions at a later stage.
- The credit duration was decreased from 4.5 years to 3.4 years.
- In terms of interest rates positioning, we also took profit on our defensive positioning at the start of the month as the market priced out cuts and as the 5y US rate now scanned much more in line with fair value.
- The interest rate duration was increased from 2.8 years to 4.0 years.
- We held on to this neutral positioning in December. In terms of interest rates positioning, we set a new underweight position through US rates at the start of the month following the rally in interest rates and as data continued to come out strong, which we saw as an opportunity for central banks to slowdown interest rate cutting path.

Outlook

- With central banks across the developed world having now concluded the simplest phase of their easing cycles by bringing policy rates towards less restrictive levels, the focus in 2025 will be on how much further they will be able to normalize policy. Uncertainty remains high herein with little forward guidance having been provided and with data dependence instead being emphasized. Furthermore, following a string of elections in 2024, this year we will see the outcome in terms of the order and magnitude of policy proposals, and this will most notably be in focus for the US economy. Whilst volatility is set to persist, we broadly expect for 2025 to exhibit similar characteristics to 2024 which would include a robust growth backdrop, coupled with sticky inflation which should allow for the elevated nominal growth backdrop to remain intact. In a similar narrative shift to what was observed at the end of 2024 from the Fed, this backdrop could ultimately prevent how far central banks are able to ease rates further. Such an environment continues to favour a strategic allocation to fixed income with a bias towards credit, to benefit from higher yields over the medium term and taking advantage of the carry opportunity that continues to present itself today.
- Fundamentals of the US economy have generally improved over the past year given the backdrop of declining inflation & front-end interest rates, stronger wages and improving credit growth. The starting point for growth heading into 2025 is therefore a strong one and this follows a year in which the economy has grown above potential amid a resilient consumer who was supported by a still relatively tight jobs market. Whilst we have observed a rebalancing and cooling of this labour market, we would view this as a normalization from very tight levels following the pandemic, rather than anything more concerning from the Fed's perspective. For example payroll growth is currently at six month highs at 170k in three month average terms and this has been a positive surprise for the Fed, as in September they forecast for the Unemployment Rate to end the year at 4.4% in contrast to the 4.1% that was delivered. This drove the Fed to make further upward revisions at the December meeting with growth for 2024 estimated at 2.5%, whilst inflation is anticipated to be stickier at 2.8% for core PCE to end-2024, and more persistent, as it is forecast to remain above target for 2025 and 2026 now as well. Interestingly and despite these inflation revisions higher, there was also a large shift in the risks being observed on the inflation front with 15 members now seeing upside risks to inflation. Inflation data released during December also supported this narrative as US Core CPI printed at 0.3% MoM for a fourth consecutive month which kept core CPI at 3.3% in YoY terms.
- In contrast, we have continued to see weaker growth readings away from the US such as in the Eurozone, UK and China and this has driven a divergence in the pricing of their respective monetary policy responses. Within the Eurozone for example, whilst the peripheral countries continue to drive growth for the region, we have seen core countries such as Germany and France suffer both economically and politically, with elections scheduled for this year in both as a result. The German manufacturing sector continues to suffer from structural challenges and increased competition from China, with its manufacturing PMI remaining well in

contraction territory as has been the case since mid-2022. Whilst hopes of a Chinese growth rebound have also risen given recent policy announcements, this is yet to feed through to the real economic data, where we continue to wait for more concrete details with regards to the fiscal package that is set to follow. Such details may only come once the authorities have more clarity with regards to Trump's tariff plans, although the fact that Chinese long-end government bond yields now trade well inside the equivalent Japanese bond highlights the deflationary pressures they may struggle to escape in the near-term.

- Whilst Donald Trump's inauguration as President is not until January 20th, we are already beginning to see the initial impact through survey data with the potential for animal spirits being unlocked on the back of a supportive tax and regulation regime. For example, the ISM Manufacturing index this past month rose to its strongest level since 2022, whilst the US NFIB Small business Optimism survey rose to its strongest level since mid-2021, with its largest one month rise historically. This comes at a time when financial conditions remain loose, and the policymaker "put" appears firmly in place as central banks have clearly shifted their focus away from inflation towards supporting growth. Crucially, given the extent of tightening previously delivered, central banks have plenty of dry powder to ease policy if necessary. Such a backdrop should help mitigate concerns around a significant growth slowdown, especially given the growing influence of fiscal policy, which is a tool increasingly used to support economies. Similarly, from a credit perspective, such a reaction function should also help buffer bouts of volatility which will inevitably appear over the course of the year.
- When we think about building portfolios within fixed income with this outlook in mind, it suggests focusing on the carry opportunities that present themselves within credit towards the higher income segments of the market, which offer yields that compare favourably to the historical return of global equities. Areas of value include high yield through CDS indices, which continues to trade cheap to the cash bond market despite the enhanced liquidity. Furthermore, the current growth backdrop has clearly been supportive of this asset class over the past year with the default rate cycle remaining benign and with limited refinancing requirements in the near-term as well. The AT1 market should also continue to benefit from firm technicals, as new supply is well digested by investors and robust fundamentals as the financial sector continues to benefit from a higher inflation and interest rate backdrop.
- Whilst there are divergences on the growth outlook for different economies as described above, one similarity appears to be ongoing inflation pressures, which may be further exacerbated on the back of tariff implementation under a Trump Presidency. For example, even Eurozone inflation appears to be stabilizing well above target given service price stickiness, with core CPI currently at 2.7% YoY, as has been the case for the past four months now. That said, and positively for the asset class, much of these inflationary pressures have been priced in over the past quarter, with the market now expecting the Fed to cut rates only once more to a terminal rate of 4.2%, and this pricing was as low as 2.8% in September. A short run neutral rate closer to 4% appears to be more reasonable for the Fed given a backdrop of fiscal dominance, and it suggests to us that we

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.

may be in the more mature phase of the repricing higher in rates market. This could therefore be presenting an attractive opportunity to add to fixed income allocations to take advantage of elevated all-in yields once interest rate markets begin to stabilise.

This is a marketing document and is intended for informational and/or marketing purposes only. It is intended to be used only by the person(s) to whom it was delivered. It may not be reproduced (in whole or in part) or delivered, given, sent, or in any other way made accessible, to any other person without the prior written approval of Union Bancaire Privée, UBP SA or any entity of the UBP Group (UBP). In particular, this document does not constitute an offer or solicitation to any person in Jersey.This document reflects the opinion of UBP as of the date of issue. This document is for distribution only to persons who are Professional Clients in Switzerland or Professional Clients or an equivalent category of investor in any other jurisdiction as defined by the relevant laws (all such persons together being referred to as "Relevant Persons").
This document is directed only at Relevant Persons and must not be acted on or relied on by persons who are not Relevant Persons. It is not intended for distribution, publication, or use, in whole or in part, in any jurisdiction where such distribution, publication, or use would be unlawful, nor is it directed at any person or entity at which it would be unlawful to direct such a document. In particular, this document may not be distributed in the United States of America and/or to US persons (including US citizens residing outside the United States of America). This document has not been produced by UBP's financial analysts and is not to be considered financial research. It is not subject to any guidelines on financial research and independence of financial analysis. Reasonable efforts have been made to ensure that the content of this document is based on information and data obtained from reliable sources. However, UBP has not verified the information from third sources in this document and does not guarantee its accuracy or completeness. UBP makes no representations, provides no warranty, and gives no undertaking, express or implied, regarding any of the information, projections or opinions contained herein, nor does it accept any liability whatsoever for any errors, omissions, or misstatements. The information contained herein is subject to change without prior notice. UBP gives no undertaking to update this document or to correct any inaccuracies in it which may become apparent. This document may refer to the past performance of investment interests. Past performance is not a guide to current or future results. The value of investment interests can fall as well as rise. Any capital invested may be at risk and investors may not get back some or all of their original capital. Any performance data included in this document does not take into account fees, commissions, and expenses charged on issuance and redemption of securities, nor any taxes that may be levied. Changes in exchange rates may cause increases or decreases in investors' returns. All statements other than statements of historical fact in this document are "forward-looking statements". Forward-looking statements do not guarantee future performances. The financial projections included in this document do not constitute forecasts or budgets; they are purely illustrative examples based on a series of current expectations and assumptions which may not eventuate. The actual performance, results, financial conditions and prospects of an investment interest may differ materially from those expressed or implied by the forward-looking statements in this document as the projected or targeted returns are inherently subject to significant economic, market and other uncertainties that may adversely affect performance. UBP also disclaims any obligation to update forward-looking statements, as a result of new information, future events or otherwise. The contents of this document should not be construed as any form of advice or recommendation to purchase or sell any security or funds. It does not replace a prospectus or any other legal documents, which can be obtained free of charge from the registered office of a fund or from UBP. The opinions herein do not take into account individual investors' circumstances, objectives, or needs.
Each investor must make their own independent decision regarding any securities or financial instruments mentioned herein and should independently determine the merits or suitability of any investment.
Investors are invited to carefully read the product features, risk warnings and the regulations set out in the prospectus or other legal documents and are advised to seek professional counsel from their financial, legal and tax advisors. In addition, the tax treatment of any investment in the fund(s) mentioned herein depends on each individual investor's circumstances The tax treatment of any investment in a fund depends on the investor's individual circumstances and may be subject to change in the future. This document should not be deemed an offer or a solicitation to buy, subscribe to, or sell any currency, funds, products, or financial instruments, to make any investment, or to participate in any particular trading strategy in any jurisdiction where such an offer or solicitation would not be authorised, or to any person to whom it would be unlawful to make such an offer or solicitation. Telephone calls to the telephone number stated in this document may be recorded. UBP will assume that callers to this number consent to this recording.
Pursuant to Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability‐related disclosures in the financial services sector (the "Disclosures Regulation" or "SFDR"), funds are required to make certain disclosures. Funds falling under the scope of Article 6 of the SFDR are those which have been deemed not to pursue an investment approach that explicitly promotes environmental or social characteristics or aims at sustainable investment. The investments underlying such financial products do not take into account the EU criteria for environmentally sustainable economic activities. Notwithstanding this classification, the Investment Managers may take account of certain sustainability risks as further described in the fund's prospectus. Funds falling under the scope of Articles 8 or 9 of the SFDR are those subject to sustainability risks within the meaning of the SFDR. The sustainability risks and Principal Adverse Impacts (PAIs) as stipulated in the SFDR are described in the prospectus. In addition, unless otherwise specified, all funds apply the UBP Responsible Investment policy, which is available on https://www.ubp.com/en/asset-management/responsible-investments.
UBP relies on information and data collected from third-party ESG data providers (the "ESG Parties"). Although UBP applies a proven process for selecting such ESG Parties, this data may prove to be incorrect or incomplete. UBP's processes and proprietary ESG methodology may not necessarily appropriately capture ESG risks. Indeed, to date, data related to sustainability risks or PAIs are either not available or not yet systematically and fully disclosed by issuers, may be incomplete and may follow various differing methodologies. Most of the information on ESG factors is based on historical data that may not reflect the future ESG performance or risks of the investments.
Although the ESG Partiesobtain information from sources they consider reliable, none of the ESG Parties warrants or guarantees the originality, accuracy and/or completeness of any data herein. None of the ESG Parties makes any express or implied warranties of any kind, and the ESG Parties hereby expressly disclaim all warranties of merchantability and fitness for a particular purpose, with respect to any data herein. None of the ESG Parties shall have any liability for any errors or omissions in connection with any data herein. Further, without limiting any of the foregoing, in no event shall any of the ESG Parties accept any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.
This content is being made available in the following countries:
Switzerland: UBP is authorised and regulated in Switzerland by the Swiss Financial Market Supervisory Authority (FINMA). The head office is Union Bancaire Privée, UBP SA, 96-98 rue du Rhône, P.O. Box 1320, 1211 Geneva 1, Switzerland.
ubp@ubp.com | www.ubp.com
United Kingdom: UBP is authorised in the United Kingdom by the Prudential Regulation Authority (PRA) and is subject to regulation by the Financial Conduct Authority (FCA) and limited regulation by the PRA.
France: Sales and distribution are carried out by Union Bancaire Gestion Institutionnelle (France) SAS, a management company licensed by the French Autorité des Marchés Financiers, licence n° AMF GP98041. 116, av. des Champs Elysées l 75008 Paris, France l T +33 1 75 77 80 80 l Fax +33 1 44 50 16 19 www.ubpamfrance.com
Luxembourg: through UBP Asset Management (Europe) S.A., a Management Company authorised under Chapter 15 of the Law of 17 December 2010 relating to undertakings for collective investment (the "2010 Law") and an Alternative Investment Fund Manager authorised under the Law of 12 July 2013 (the "AIFM Law"), which manages undertakings for collective investment subject to Part I of the 2010 law and other types of funds which qualify as alternative investment funds.
287-289, route d'Arlon P.O. Box 79 1150 Luxembourg T +352 228 007-1 F +352 228 007 221.
Hong Kong: UBP Asset Management Asia Limited ("UBP AM Asia") is licensed with the Securities and Futures Commission (CE No.: AOB278) to carry out Type 1 – Dealing in Securities, Type 4 – Advising on Securities and Type 9 – Asset Management regulated activities. The document is intended only for Institutional, Corporate or Individual Professional Investors and not for public distribution. The contents of this document have not been reviewed by the Securities and Futures Commission ("SFC") in Hong Kong. This product is not authorized by the SFC. The contents of this document and any attachments/links contained in it are for general information only and are not advice. The information does not take into account your specific investment objectives, financial situation and investment needs and is not designed as a

substitute for professional advice. You should seek independent professional advice regarding the suitability of an investment product, taking into account your specific investment objectives, financial situation and investment needs before making an investment. The contents of this document and any attachments/links contained in it have been obtained from sources believed to be reliable, but not guaranteed.
Singapore: This document is intended only for (a) accredited investors as defined under section 4A(1)(a) of the Securities and Futures Act 2001 of Singapore ("SFA") read with regulation 2 of the Securities and Futures (Classes of Investors) Regulations 2018, and (b) institutional investors as defined under section 4A(1)(c) of the SFA read with regulation 3 of the Securities and Futures (Classes of Investors) Regulations 2018 and the Securities and Futures (Prescribed Specific Classes of Investors) Regulations 2005. Notwithstanding that the relevant income or wealth criteria prescribed under the definition of "accredited investor" in section 4A(1)(a) of the SFA and regulation 2 of the Securities and Futures (Classes of Investors) Regulations 2018 may be satisfied, only persons who have expressly consented (or are deemed to have consented) to being treated as accredited investors can be considered to be accredited investors. Persons other than accredited investors or institutional investors under the SFA must not act upon or rely upon any of the information in this document. This document has not been registered as an information memorandum with, nor reviewed by, the Monetary Authority of Singapore ("MAS"). Accordingly, this document and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of this product may not be circulated or distributed, nor may the product be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to institutional investors under Section 274 or 304 of the SFA, (ii) to relevant persons pursuant to Section 275(1) or 305(1), or any person pursuant to Section 275(1A) or 305(2) of the SFA, and in accordance with the conditions specified in Section 275 or 305 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA. Any dealings with accredited investors and institutional investors in Singapore shall be exclusively conducted by an entity duly licensed and/or regulated in Singapore by MAS.
By accepting this document and any other material in relation to this product, the recipient represents and warrants his/hers/its eligibility to receive such document under the restrictions set forth above and agrees to be bound by the restrictions accordingly.

Jersey: Union Bancaire Privée, UBP SA, Jersey Branch is regulated by the Jersey Financial Services Commission for the conduct of banking, funds and investment business. Union Bancaire Privée, UBP SA, Jersey Branch is a branch of Union Bancaire Privée, UBP SA, whose registered offices are at Rue du Rhône 96-98, P.O. Box 1320, 1211 Geneva 1, Switzerland, with its principal place of business in Jersey at 3rd Floor, Lime Grove House, St Helier, Jersey, JE1 2ST

Any subscriptions to funds not based on the funds' latest prospectuses, Pre-Contractual Template (PCT) (when applicable), KIDs or KIIDs (as appropriate), annual or semi-annual reports or other relevant legal documents (the "Funds' Legal Documents") shall not be acceptable. The KIDs are also available on UBP's website, https://www.ubp.com/en/asset-management/funds in the local language of each country where the share class is registered. The Funds' Legal Documents may be obtained free of charge from Union Bancaire Privée, UBP SA, 96-98 rue du Rhône, P.O. Box 1320, 1211 Geneva 1, Switzerland, from UBP Asset Management (Europe) S.A., 287–289 route d'Arlon, 1150 Luxembourg, Grand Duchy of Luxembourg, and from Union Bancaire Gestion Institutionnelle (France) SAS, 116 avenue des Champs-Elysées, 75008 Paris, France. The English version of fund prospectuses as well as a summary of investor rights associated with an investment in a fund are available on www.ubp.com. The fund's management company may decide to terminate or cause to terminate the arrangements made for the marketing of its collective investment undertakings in accordance with Article 93a of Directive 2009/65/EC. The Swiss representative and paying agent of the foreign funds mentioned herein is UBP.The Funds' Legal Documents may be obtained free of charge from UBP, as indicated above.