UBAM (CH) - SWISS EQUITY

Quarterly Comment

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.

Market Comment

- In Q4, equity markets delivered mixed returns across regions. The MSCI AC World was down -0.9%: emerging market equities lost -7.9%, Swiss equities -4.7% and European equities -2.7%. On the other hand, Japanese equities were up +5.4%, and US equities +2.4%. The SPI Extra lost -5.0% over the quarter. In 2024, the MSCI AC World delivered 18.0% in performance compared to +6.2% for the overall Swiss Performance Index's (SPI) and +3.8% for the SPI Extra (total return in local currencies).
- In the US, economic data were mixed in December. While the Fed cut rates further by 25bps, the forward-looking statement for the interest rate policy turned more cautious than previously given solid growth, less downside risks from labour and potential higher future inflation. Business sentiment decreased slightly with the US manufacturing PMI index down from 49.7 to 49.4. The yearly trend in US CPI increased further from 2.6% to 2.7% at the end of November, while core inflation stayed stable at 3.3% y/y. US equities' EPS growth estimates remained at 10% for 2024 and 14% for 2025, with a broader contribution across sectors. The valuation premium of the US equity market versus the rest of the global equity market is still elevated, with the S&P 500 trading at 21.7x 12m FW PE versus 18.1x for the MSCI AC World.
- In the Eurozone the PMI manufacturing index remained in contraction territory at 45.1 in December, reflecting a continued drop in new orders that has pushed the production component to its lowest level in a year. Additionally, decreasing input costs indicate a potential reduction in inflationary pressures, which may enable manufacturers to lower selling prices for customers. The ECB cut rates further by 25bps as expected. The yearly inflation trend reaccelerated over the month of November, with the CPI up from 2.0% to 2.2% due to base effects on energy prices, while core inflation is stable at 2.7% y/y. European equities' EPS growth expectations remained stable at 2% for 2024 and 8% for 2025, coupled with a 13.5x 12m FW PE.
- In Switzerland, the KOF leading indicator dropped below the 100 mark in December, to 99.5, with sentiment for chemicals and pharma sectors declining. The SNB surprised the market, cutting rates by 50bps, given low inflation levels – at 0.6% y/y in December – and reiterating its willingness to intervene in the foreign exchange market to prevent appreciation pressures on the Swiss Franc. Unemployment remained stable at 2.6% in November, a low level compared to other regions. EPS growth expectations for Swiss equities remained stable and robust for 2024 and 2025, at 11% in both cases, with a 17.0x 12m forward PE.
- In Q4, at sector level, Financials were by far the largest contributor to the SPI performance, while Healthcare, Consumer Staples and Materials were the main detractors. In terms of individual names, UBS, Swiss Re and Zurich Insurance were the largest contributors to the index' performance, whereas Nestlé, Novartis and Roche were the largest individual detractors.

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Performance Review

- Over the fourth quarter of the year, UBAM (CH) - Swiss Equity delivered -4.83% in gross performance, versus -4.74% for the SPI. Sector allocation, particularly the underweight in Consumer Discretionary and the absence of exposure to Real Estate, contributed negatively to relative performance. On the other hand, stock selection, especially in the Health Care and Industrials sectors, contributed positively to relative performance. Over 2024, the fund deliverid +2.68% in gross excess return versus the SPI.
- During Q4, the biggest individual contributors to relative performance were the overweights in Galderma and Accelleron as well as the underweight in Nestlé (+34bps, +27bps and +21bps respectively). Galderma's share price gained +28.0% as the company benefited from supportive newsflow regarding its products and marketing strategy. Accelleron's share price appreciated +6.5%, continuing on its strong annual performance, supported by growing awareness of the company. Nestlé was down -11.9% as the company's Capital Markets Day failed to provide a sufficiently clear path towards the company turnaround to lead to upgrades in expectations.
- The main detractors to relative performance over the period were the absence of exposure to Richemont and Holcim as well as the overweight in VAT Group (-35bps, -29bps and -17bps respectively). Richemont's share price gained +3.1%, showing some performance recovery after two weak quarters, in part based on optimism that the holiday season might revive the slow dynamics of the luxury market. Holcim was up +5.8% after it confirmed its decision to split the group, with the lower carbon intensity, and debatedly higher value added activities moving to the US listing. The split will happen over the course of 2025. VAT Group was down -20.4%, affected by continued semiconductor market uncertainties and a profit warning of ASML, which affected the entire supply chain.

Portfolio Activity

- Over the first half of the quarter, the team sold the remaining exposure to Pierer Mobility, as newsflow continued to deteriorate. The position in Stadler Rail was sold following the company's guidance cut and suspension of mid-term targets in November. The position in Cicor was sold on a change in the shareholder structure after the company's majority shareholder converted its mandatory convertible bond. Moreover, the position in Swiss Life was reduced following disappointing results for its Asset Management division. The company's valuation premium versus peers reinforced the team's decision. Finally, the positions in Accelleron and ABB, amongst the largest contributors in 2024, were reduced as well after strong performances over the year.
- On the other hand, a position in SGS, the largest global company specialized in inspection, verification, testing, and certification services, was initiated. After a period of disappointing performance, SGS has appointed a more ambitious and capable management team, selected by the Board of Directors and key shareholders, which is expected to drive profitable growth. Although the Cash Flow Return on Investment (CFROI, source: UBS HOLT) declined after 2015, it has now stabilized above 10%, and the new strategy focusing on both organic and external growth, along with improved efficiency, is projected to increase CFROI to around 15% in the coming years. While the company has historically traded at elevated levels, the anticipated improvements

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in growth and profitability in a defensive industry, coupled with high-quality management, justify accepting a premium for the stock. Additionally, the evolving political and regulatory landscape may favour the company, as it shifts towards more industry-driven regulations, enhancing its competitive position. Overall, SGS is expected to contribute defensively to the portfolio. The position in Zurich Insurance was increased following ambitious 3-year targets laid out during the company’s capital markets day at the end of November.

Outlook

- The outlook for global equities is constructive for 2025, supported by ca. 12% expected EPS growth for the MSCI AC World. The US election could bring improved business and consumer confidence, a consolidation of the budget deficit (government efficiency) and increased domestic activity. However, uncertainties remain about the path of inflation, tariffs, the further direction of low European growth and the risk of more erratic politics.
- In this context, the Swiss equity market is poised to benefit from Switzerland's political and economic stability as well as robust macroeconomic indicators, including low inflation levels. Swiss companies, with their geographically diversified revenue streams, are less vulnerable to economic fluctuations in specific countries. Furthermore, the US is now Switzerland’s largest individual export market, which should be beneficial given the country’s economic outlook. Additionally the willingness of the SNB to intervene in the foreign exchange market to mitigate any significant appreciation of the Swiss Franc, leading to a more stable currency environment, could further support the Swiss equity market. EPS growth expectations for Swiss equities are robust for 2025, driven by contributions from various sectors, notably Industrials and Healthcare, alongside attractive relative valuations.
- The Swiss equity strategy emphasizes the selection of sustainably value-creative companies that typically exhibit strong and predictable earnings growth. With diversified exposure to resilient and attractively priced growth opportunities across different market segments, coupled with lower concentration risk compared to the SPI, the strategy is well positioned for 2025.

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