
LO Funds (CH)

Swiss Leaders

Newsletter

High Conviction • Equities

30 June 2024

PERFORMANCE COMMENT

LO Funds (CH)–Swiss Leaders' institutional share class finished June with a return of 0.10%, which represents an outperformance of 55 bps compared to its benchmark, the Swiss Performance Index (SPI TR). Our overweights in Comet Group, Temenos and VAT Group were the best contributors to relative performance in the month, while overweights in Partners Group and Sika, as well as not owning Belimo, detracted from relative performance. In the SPI, Healthcare, Communication Services and Real Estate performed best, while Consumer Staples and Consumer Discretionary lagged.

MARKET REVIEW

The Swiss market, as measured by the Swiss Performance Index (SPI), lost 0.46% during June. This compares with a 2.03% gain for the MSCI World Index (NDDUWI). The STOXX Europe 600 Index (SXXP) traded down 1.30% on geopolitical uncertainty in France and the UK. President Macron called for snap parliamentary elections after Rassemblement National won in the EU elections, similar to Prime Minister Sunak's call for early elections in the UK.

Disinflation continued to drive equity markets higher. US CPI rose 0.0% MoM vs consensus expectations of 0.1% and the prior month's 0.3%. US PPI likewise came in below expectations. Additionally, several economic releases came in weaker than expected, and bad news was interpreted as good in that a slowing economy may convince the Federal Reserve to cut interest rates after all. The global Citi Economic Surprise index fell from 7.3 to -3.1. Flash manufacturing PMIs for June were mixed, with the Eurozone falling from 47.3 to 45.8, while the US climbed from 51.3 to 51.7. The US 10-year yield subsided from 4.50% to 4.40%. The ECB cut interest rates for the first time this cycle, while the SNB did so for a second time. Volatility, as measured by the VIX

index, remained low at 12.4 vs 12.9 in the prior month. Equity markets were also supported by modest earnings upgrades. The market leaders remained a very small cohort concentrated in the US Technology sector.

By style, growth outperformed value globally, but not in Europe or Switzerland. Quality fared better than the broader market.

PORTFOLIO ACTIVITY

During the month, we neither added nor exited a position.

STOCK OF THE MONTH

VAT Group finished June with a share price gain of +4.7% and thus advanced by +22.5% in the first semester of 2024. We recently had the chance to meet with management at a Swiss equities conference and remain convinced of the company's prospects as it is poised to benefit from the imminent memory recovery in semiconductors (NAND flash memory). News flow in the sector will continue to improve in the coming months. Recently, Micron raised its capex expectations for 2025, as did TSMC. Accordingly, orders for names like VAT Group should continue to see a sequential improvement, as is also the case for Comet Group, another Swiss semiconductor company that we like.

QUARTERLY OUTLOOK

We remain constructive for the remainder of 2024. Disinflation and central banks cutting interest rates create a positive backdrop for equity markets. Weakening economic growth, mixed manufacturing PMIs and election uncertainty cloud the picture somewhat.

SINCERELY,

LO Funds (CH)–Swiss Leaders investment team

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IMPORTANT INFORMATION

RISK AND REWARD PROFILE

SRI score: 4 (1 : Lower risk - potentially lower rewards; 7 : Higher risk - potentially higher rewards)

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