Quarterly commentary / 30.9.2024

Vontobel Fund (CH) – Sustainable Swiss Equity Income Plus

Marketing document for institutional investors in: CH.

Market developments

The equity markets began the third quarter of 2024 in a volatile mood. The half-yearly financial statements of many companies triggered large fluctuations in July, with the big US tech groups – also known as the Magnificent Seven – seeing unusually pronounced share price losses. This erratic market performance continued in August. The broad-based Swiss Performance Index (SPI) fell by more than 6% in the first three days of the month as weak US economic data, including the purchasing manager indices and disappointing labor market figures, fueled fears of a recession. The considerable turbulence on the markets and the exceptionally high level of volatility were exacerbated by geopolitical tension, the Bank of Japan's interest rate hike and concerns that the US Federal Reserve's monetary policy may have been too restrictive for too long. The markets gradually calmed as the month continued, with the SPI actually closing higher at the end of August. In early September, sentiment on the global financial markets deteriorated as weaker economic data emerged from the US again and global purchasing manager indices declined. Midway through the month, investor attention turned to the Fed's interest rate decision. On September 18, the Fed lowered its benchmark rate for the first time in more than four years. The reduction of 50 basis points is intended to strengthen the US labor market and economy, with the Fed expressing its confidence that inflation remains under control. Fears of a recession receded again as a result. Whether the decision will have the desired effect will become apparent over the next few months. While the response on the international equity markets was not euphoric, it was certainly cautiously optimistic, like in the spring when the Swiss National Bank in particular began its cycle of interest rate cuts.

The SPI gained 2.0% across the third quarter as a whole. This was well below the figure of 4.5% recorded by the SPI Extra, the index for Swiss small and mid caps – something that had not been the case for several quarters. Between the start of the year and the end of September, the SPI rose by 11.5% while the SPI Extra gained 9.3%, a difference of 2.2%. At the halfway point of the year, the gap between them was still almost 5%.

The top performers in the third quarter were the SPI members Belimo (34%), Accelleron (25%) and Straumann (24%), while the bottom end of the list was populated by Forbo (-16%), VAT (-15%) and Logitech (-12%).

Portfolio review

Equity strategy: In the third quarter, we expanded our existing positions in Barry Callebaut, Partners Group, PSP, Roche, Schindler and Sonova, and increased the weighting of insurance stocks such as Swiss Life, Swiss Re and Zurich Insurance. We added Galenica to the portfolio for the first time. Conversely, we significantly scaled back our existing position in Nestlé, reduced the weighting of UBS and took profits in Belimo and Sulzer.

Option strategy: Our proprietary economic cycle model Wave, which underpins our decisions concerning the dynamic option strategy, delivered a signal in the third quarter for the first time since the fund was launched. Global economic indicators had deteriorated considerably in the previous weeks, with the Wave entering the contraction phase as a result. Alongside our permanent option strategy, we therefore began writing additional index options in mid-August. Economic surveys and indicators improved slightly in the second half of August, but this proved to be only a temporary signal. The Wave is currently in a moderate recovery phase again. The options expired worthless at the end of September, meaning that the signal resulted in a contribution of around 0.1%.

Performance analysis

The fund (UBSI asset class) gained 2.2% in the third quarter, thereby slightly outperforming the SPI (2.0%). The equity strategy contributed 0.5% to relative performance, while the option strategy slowed it by -0.2%.

Equity strategy: The biggest positive contributions came from our overweights in Belimo and Sandoz and our underweight in Nestlé. Belimo's share price has outperformed the market as a whole since its half-yearly figures were announced in late July. The traditional company, which specializes in the energy-efficient control of heating, ventilation and air conditioning systems, presented strong results and is proving adept at consistently occupying new niches of the market. For example, it added sensors to its product range a few years ago. In recent quarters, Belimo has also benefited from the structural growth trend of artificial intelligence, with its actuators already being used in the building cooling systems of numerous data centers. According to data since April 2024, Sandoz has successfully broken into the US market for similar versions of biopharmaceutical products, known as biosimilars. Working with CVS, one of the biggest pharmacy benefit managers, Sandoz launched the biosimilar Humira in the US and gained considerable market share. This revenue promises strong margins, while Sandoz has clearly also gained credibility among investors thanks to its ambitious medium-term targets. With fat loss injections currently all the rage, Nestlé finds itself in a difficult position as a manufacturer of highly processed foods and is struggling with weak growth. Its previous growth drivers, coffee and pet food, are failing to compensate for this development for the time being.

Our overweights in Clariant, Kühne + Nagel and VAT delivered negative contributions. Although Clariant presented solid results for the first half of the year and raised its full-year guidance for 2024, its share price was impacted by delays to the anticipated recovery of the catalysts business. Having performed extremely well previously, VAT's share price lagged behind the market as a whole in the third quarter despite robust half-yearly figures as the expected upturn in demand in the semiconductor industry again failed to materialize. In general, the sector was also hit by the appreciation of the yen in the wake of the Bank of Japan's decision to raise interest rates in early August. This led to the abrupt unwinding of carry trades, with many investors having borrowed in yen at low interest rates in order to invest in US technology stocks in particular. Kühne + Nagel is having to deal with the continued economic weakness in almost all major regions of the world. Furthermore, Deutsche Bahn announced in mid-September that it would be selling its logistics subsidiary, DB Schenker, to the Danish logistics service provider for EUR 14.3 billion as the latter company continues its aggressive acquisition policy. This fueled fears that Kühne + Nagel could lose market share. Kühne + Nagel itself gave off a relaxed impression and did not officially participate in the bidding competition for DB Schenker. We expect Kühne + Nagel to lose its market leadership to the new logistics giant DSV in the aviation sector, but not in shipping.

Option strategy: July saw the highest opportunity costs for the permanent option strategy since the fund was launched. This resulted in a negative contribution of -0.6% as the overall market enjoyed positive monthly performance and some individual stocks racked up strong gains, including index heavyweight Roche with monthly growth of 14.5%. The sale of options on these stocks meant the fund was unable to fully benefit from their strong price performance.

However, the advantages of the fund's covered call strategy paid off during the subsequent correction phase. The fund outperformed the market by 0.7% in the first four trading days of August, with the option premiums in particular helping to cushion losses. After three days of falling share prices, we concluded that the market's response was excessive. We therefore made use of another derivative instrument, purchasing a call option on the RMI in order to mitigate the risk of a market recovery. This decision proved correct, as the market saw a quick and pronounced upturn. In all, the option strategy therefore delivered a positive contribution of 0.2% in August.

Developments in September broadly mirrored August. The month began with a more pronounced correction in which the option premiums served as a buffer to roughly the same extent as in August. The very end of September then saw a market recovery with some strong trading days. In all, the option strategy also delivered a positive contribution of 0.2% in September.

Outlook

The aggressive interest rate decision by the US Federal Reserve probably suggests that a cycle of benchmark rate cuts has begun. A soft landing for the US economy without a recession now appears to be a more realistic scenario again. The stimulus measures aimed at the Chinese equity and real estate markets are likely to provide sustained impetus for export-oriented companies in particular. In terms of geopolitical factors, the situation in the Middle East has become even more strained, while the outcome of the US presidential election in November remains uncertain. As such, the financial markets are likely to remain volatile for the time being.

However, we do not see this as a reason to be pessimistic. With an investment horizon of at least one year, we are confident about Swiss equities in light of the expected growth in corporate earnings, which we estimate in the high single digits, and because we consider the current valuations to be attractive compared with other equity markets. However, picking out the right investments with the greatest of care remains crucial given the consistently challenging market environment. We always apply high standards when selecting the Swiss companies in which the fund ultimately invests, irrespective of the industry in which they operate or the sales markets they serve. This involves looking at everything from their balance sheet and business model, their global market leadership, innovation and pricing power through to their management expertise and corporate culture – and this is reflected in the in-depth nature of our continuous company analyses.

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Fund characteristics

Fund name	Vontobel Fund (CH) – Sustainable Swiss Equity Income Plus
ISIN	CH1303570159
Share class	I CHF
Reference index	Swiss Performance Index (SPI)
Inception date	14.3.2024

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