

US Large Cap Select Growth Equity

UBS Asset Management separately managed accounts — **Second Quarter 2022**

Market review

Equities and fixed income fell in tandem in June, capping the end to a challenging second quarter and one of the worst first halves of a year in decades for investors. US inflation rose by 8.6% in May year-on-year, disappointing expectations that price pressures had already passed their peak. Stubborn inflation has elicited a hawkish response from the U.S. Federal Reserve. The Fed raised rates by 75 basis points in June the largest hike since 1994. As of 1 July, markets were pointing to around 325 basis points of tightening for 2022 overall, up from around 230 basis points at the start of the quarter. Fed Chair Jerome Powell warned that “further surprises” on inflation could be in store and that policymakers would need to be “nimble” in response to incoming data. Bringing down inflation, he added, remained the “overarching focus” of policy.

There are also signs that a combination of tighter monetary policy and inflation are starting to cool economic activity. High inflation appeared to contribute to the first decline in retail sales in five months during May. Fed tightening helped push the average rate of the 30-year fixed rate mortgage to the highest level since the 2008 financial crisis, almost doubling since the start of the year to close to 6%, based on data from US housing agency Freddie Mac. Recent regional Fed surveys of the manufacturing sector have shown weakness, with sharp declines in new orders. There are some positive indicators that make a soft landing possible, namely, the health of the US household’s balance sheet and levels of private sector investment.

Strategy review

The US Large Cap Select Growth Equity was down 23.81% during the second quarter of 2022, compared to the 20.92% decline in the Russell 1000 Growth Index, underperforming the benchmark by 289bps. Both sector allocation and stock selection detracted from the strategy’s performance in the quarter. Sector allocation in Consumer Staples and Consumer Discretionary was negative, as inflation weighed on both consumer sentiment and spending. Sector allocation in Healthcare and our small cash position contributed to performance. Stock selection was most positive in Consumer Discretionary and Financials, while stock selection in Industrials and Healthcare was most negative. Top performing Large Cap Growth stocks in Q2 included Progressive (+2.1%) and UnitedHealth Group (+1.1%). Our underweight positions in NVIDIA, which was down 44.4% in the quarter, and Tesla, which was down 37.5% in the quarter, also contributed to performance. The largest detractors from performance were Marvell (-39.2%), and Dexcom (-41.7%). Negative performance from Marvell was driven by supply chain bottlenecks, which weighed on all semiconductor stocks. Dexcom’s underperformance was driven by a potential delay of their next-generation device and rumors of a large acquisition.

Outlook

The rate regime shift – in the US and globally – could keep market volatility elevated in the coming months. At the same time, there are some positive indicators that make a soft landing possible, namely, the health of the US household’s balance sheet, low unemployment, and strong private sector investment.

Although we expect sentiment to remain fragile with increased volatility, we believe it is possible that the markets have already priced in a severe recession similar to the global financial crisis (GFC). For a number of reasons, we think the US can avoid a recession of that magnitude. Amid the volatility, our process continues to focus on high quality growth companies at an attractive price and diversification of alpha drivers through 3 bucket of growth companies (elite, classic and cyclicals). We continue to see attractive opportunities across sectors, especially given that companies that we invest seek to benefit from accelerating secular trends and may emerge from the current environment stronger

than less well-positioned or well-capitalized competition. We also continue to practice diversification across sectors, industries and duration of future cash flows to help respond to market environments and reduce factor risks across our portfolios – as too much style/duration can overcome industry and stocks idiosyncrasies.

Currently, the strategy's largest overweights are to the Communication Services, Consumer Discretionary, and Health Care sectors. Its largest underweights are to Consumer Staples and Information Technology.

The strategy has no exposure to Materials, Real Estate, or Utilities.

Portfolios are actively managed and their composition will differ over time. The views expressed are those of UBS Asset Management (Americas) Inc. (its asset management firms and individual portfolio managers) as of June 30, 2022. The views are subject to change based on market conditions; they are not intended to predict or guarantee the future performance of the markets, any individual security or market segment, or any UBS advisory account or mutual fund. For separate accounts, any securities discussed do not represent all of the securities that will be purchased, sold or recommended for advisory clients.

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