MAINFIRST

MARKET COMMENTARY

July 2022

MainFirst Top European Ideas Fund &
MainFirst Germany Fund

MainFirst Absolute Return Multi Asset,
MainFirst Global Equities Fund &
MainFirst Global Equities Unconstrained Fund
MainFirst Megatrends Asia

MainFirst Global Dividend Stars &
MainFirst Euro Value Stars

MainFirst Emerging Markets Corporate Bond Fund Balanced &
MainFirst Emerging Markets Credit Opportunities Fund

Marketing communication

MAINFIRST TOP EUROPEAN IDEAS FUND & MAINFIRST GERMANY FUND

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MAINFIRST TOP EUROPEAN IDEAS FUND

AN EVENTFUL MONTH

The last few weeks have seen interest rate hikes by the Fed and the ECB, the energy crisis, high inflation coupled with a dampening of the global growth outlook as well as the resignation of Mario Draghi and a reporting season.

Both the ECB and the Fed raised key rates in July. While the ECB hiked interest rates by 0.5% – which was a more aggressive increment than the market expected – the Fed's 0.75% increase was in line with expectations.

Yields on 10-year bonds both in the US and in Germany fell further despite rising interest rates. 10-year Treasury yields fell from 3.4% at their peak to 2.6%. The 10-year Bund yield fell from 1.7% in June to 0.8% at the end of July.

European equity markets rose despite the economic outlook having clouded over, and are benefiting both from falling yields and from largely positive quarterly reports, which are better than had been expected beforehand, and the fact that valuations are still low.

While, according to the definition of recession used by economists – negative growth for two successive quarters – the US is in recession (-0.9% from April to June), US Secretary of the Treasury Janet Yellen rejects this. She tends to see the positive signals, such as sustained job creation, strong household finances, companies that are growing and consumer spending of 9.1% despite high inflation.

In spite of uncertain gas supplies, high inflation and recession fears, Europe's economy remains stable. In the second quarter, euro zone growth, at 0.7%, was better than expected, while the German economy unexpectedly stagnated (0.0%). Inflation in Europe rose to 8.9% in July, which led to speculation about a further 50-basis-point rate rise.

The European market made an impressive recovery in July, with the STOXX Europe 600 TR gaining 7.8%. MainFirst Top European Ideas Fund gained 6.1%.

Some of our portfolio companies also released figures.

Verallia (+9.6%) announced excellent second-quarter results that again beat all expectations, and raised its full-year forecast for 2022. As already announced, in the first and second quarter Verallia made two successive sales price increases in Europe to make up for the significant increase in production costs since the end of 2021.

Bawag (+11.9%) reported strong half-year results that beat earnings expectations, and raised its forecast for core revenues. The company also announced that the ECB had approved a share buyback of EUR 325 million.

Atoss Software (+26.9%) remains on a growth course and is reporting record-breaking figures. The company expects an EBIT margin of at least 25% for the full year and sustained growth based on its growing focus on the cloud as well as its global orientation. Medacta (+6.5%) reported better-than-expected preliminary figures for the first half of 2022. The full-year 2022 forecast was reaffirmed, with revenue now expected to come in at the upper end of the range and adjusted EBITDA to be at the lower end.

Gestamp (+15%), too, reported strong figures for the second quarter, which beat expectations.

Amadeus Fire (-8.4%) was one of the losers. As expected, the reported figures were good and Amadeus Fire continues to capitalise on the demand for personnel services. However, the share came under pressure due to the poor performance of COMCAVE, which it took over in December 2019. COMCAVE reported a decline in revenue of 19.6% compared with the first half of 2021. Jupiter (-13%) and Home24 (-19.6%) also detracted from performance.

MAINFIRST GERMANY FUND

EQUITY MARKETS STABILISE

Despite ongoing uncertainty and diverse challenges, equity markets stabilised in July and gained quite strongly especially in the second half of the month. Growth was supported by the Fed's decision to increase interest rates by 75 basis points. Some market participants had been fearing a hike of 100 basis points, so the decision was a relief. Also, the reporting season created positive impetus for the equity markets, with the results of the US heavyweights Apple and Amazon in particular shoring up prices.

In terms of sector, the rising markets created a tailwind for cyclicals. The German equity index rose by more than 5% and in particular industrials and consumer cyclicals outperformed the market in July. MainFirst Germany Fund was not quite able to keep pace and underperformed the overall market last month due to individual stock picking.

All for One (-6%) and Amadeus Fire (-8%) were the biggest detractors from the performance of MainFirst Germany Fund.

All for One was unable to avoid the challenges this year and was forced to reduce its EBIT forecast due to project postponements and higher costs. The company provides digitalisation services to mid-sized enterprises and managed to further increase its revenue. We tend to regard issues like project postponements due to the current uncertain market environment as a temporary phenomenon, and expect that the company will be able to generate further growth and increase margins in the coming years, so the stock holds upside potential.

Amadeus Fire reported further growth for last quarter and reaffirmed its forecast. The company is benefiting from an ongoing skills shortage and ensuing robust growth in staffing and personnel placement. Only the training segment was unable to grow its revenue, causing disappointment and prompting the share price fall.

About You (+29%), Atoss Software (+27%) and Sixt (+15%), though positive, were unable to fully make up for the negative performances.

Atoss Software again broke records last quarter and managed to continue its growth trend. The company continues to capitalise on international expansion and the growing proportion of cloud revenue.

After a poor price performance in the year to date, About You managed to recoup some of the loss thanks to a strong month. Further support came when one of the founding members purchased shares in the company, which sends a strong signal and underscores the management's belief in its own company.

MAINFIRST ABSOLUTE RETURN MULTI ASSET, MAINFIRST GLOBAL EQUITIES FUND & MAINFIRST GLOBAL EQUITIES UNCONSTRAINED FUND MAINFIRST MEGATRENDS ASIA

Frank Schwarz, Adrian Daniel, Jan-Christoph Herbst, Johannes Schweinebraden

MAINFIRST ABSOLUTE RETURN MULTI ASSET

Equities were strong this July despite a 50 basis point interest rate hike in Europe and weaker consumer figures in the US. The latter manifested in the form of a profit warning from Walmart, with the US retailer having to contend with overstock due to falling demand. Meta/Facebook is struggling with a decline in advertising revenue and the heavy burden of investments. In addition, the further economic growth outlook is being impacted by the Ukraine war and the worldwide supply shortages, with the result that the US is officially in a technical recession since July.

This initially led to a fall in the market, but it recovered in the final week of July after other companies – for example Amazon – reported better figures than had been feared.

The MSCI World Index (EUR) recorded a performance of almost 11%, making it the best month of 2022. The Bloomberg Global Aggregate Bond Index also had a positive month, closing with a performance of +2%.

MainFirst Absolute Return Multi Asset benefited from this development and closed the month with a positive performance of more than 3%. The net equity exposure at month-end was 13%.

The prices of stocks that come under the cloud computing investment theme were up sharply. The sector is bucking the macro-economic trend thanks to undiminished demand. In the second quarter, the cloud business of market leaders AWS, Microsoft and Google grew by 33%, 46% and 36%, respectively, new contract closures for data centres are at record levels and free server capacity is lower than it has been in years. The theme has a high weighting in the fund and stands to benefit long-term from the sustained increase in data volumes and increasing demand for cybersecurity. This also benefits our semi-conductor stocks Nvidia, ASML and TSMC.

Our stocks in the consumer and luxury goods sectors managed to decouple from the weakening sector environment, with LVMH and L'Oreal reporting solid figures for the second quarter.

We sold Airbnb and Uber owing to weaker consumer demand in the US and to get ahead of a potential dip in revenue. In addition, we sold Vestas Wind following the announcement of a USD 370 billion climate spending deal and a one-day performance of +15%, since the company is struggling with major supply chain issues and cost pressure.

A new addition to the portfolio is Nutrien, which produces potash, nitrogen and phosphate products for agricultural, industrial and animal feed customers. It therefore stands to benefit from the increase in fertilizer prices due to the sanctions imposed on Russia. In addition, the French spirits group Remy Cointreau was added to the portfolio, and the semi-conductor company Infineon was replaced with STMicroelectronics.

With an average rating of AA, the fund management continues to bet on a defensive bond positioning. In July, longer-dated French bonds were sold and replaced with shorter-dated Austrian sovereign bonds. This reduces the risk due to the shorter duration of 3 years, and France has a higher government debt to gross domestic product (GDP) ratio than Austria and the yield is almost identical.

At 29%, the net unsecured foreign currency exposure remains close to the 30% ceiling. With an allocation of 9%, gold is an important portfolio diversification element.

MAINFIRST GLOBAL EQUITIES FUND

The value of MainFirst Global Equities Fund rose sharply in July.

The low net equity exposure entailed hedging costs. The exposure was increased at the end of the month and currently stands at 24%.

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Having selected semi-conductor companies such as TSMC, ASML, Advantest and Nvidia, the portfolio is capitalising on this growing significance of data centres. These companies are affected to a lesser extent by the current weaker market for semi-conductors for PCs, smartphones and memory. The clear focus of our selection in this area is on technology leaders in the sector. On the other hand, we are deliberately avoiding producers such as Intel, as they can no longer keep up with the latest manufacturing technology. Intel is reporting a sharp decline in revenue and recently reported its first loss in 20 years.

Even though the equity market painted a different picture in recent months, our core investments demonstrated the soundness of the business models in the current reporting period, with LVMH, L'Oreal and Richemont reporting solid figures for the second quarter.

Tesla had an impressive quarterly report despite the lockdowns in China in the second quarter, with revenue growth of 42%. On its way to becoming the biggest car maker in the world, the company is demonstrating its technology lead with price rises across the board. We expect Tesla to head towards production capacity of more than 10 million vehicles in the coming years.

STMicroelectronics was a new addition to the portfolio. Tesla and Apple are among its biggest customers. The company impressed us with revenue growth of 28% as well as stable guidance for the rest of the year.

We sold Airbnb. High energy prices and weaker consumer sentiment have increased the risk of a slump in the travel sector after the summer.

Despite a beleaguered macro-economy, our companies are growing well. The first results coming in for second-quarter reporting season, with mean organic revenue growth of +17% for our companies, give us optimism for the further course of the year and for fund performance.

MAINFIRST GLOBAL EQUITIES UNCONSTRAINED FUND

The value of MainFirst Global Equities Unconstrained Fund rose sharply in July.

The prices of stocks that come under the cloud computing investment theme were up sharply. The sector is bucking the macro-economic trend thanks to undiminished demand. In the second quarter, the cloud business of market leaders AWS, Microsoft and Google grew by 33%, 46% and 36%, respectively, new contract closures for data centres are at record levels and free server capacity is lower than it has been in years. The theme has a high weighting in the fund and stands to benefit long-term thanks to the sustained increase in data volumes and increasing demand for cybersecurity.

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MAINFIRST MEGATRENDS ASIA

The Asian equity market was positive after it was announced that the Chinese finance ministry is planning a USD 220 billion stimulus package for the second half of the year. In July MainFirst Megatrends Asia again outperformed the overall market.

Impressive quarterly results from our semi-conductor companies made for positive contributions to performance. TSMC is capitalising in particular on growth in data centre business and managed to grow revenue by 43% while increasing its margin. The company is the global leader in the game-changing 7nm and 5nm technology. Intel has not kept pace in this respect in recent years. Due to the fact that TSMC has factories in China and Taiwan, the share traded at a heavy discount. Advantest, the Japanese manufacturer of semi-conductor test systems, was also impressive, increasing revenue and earnings by 40% and 95%, respectively, year on year.

Also, the results of automation specialist Keyence show that the trend is towards more independent and more local production. Due to higher wage costs, the degree of automation is growing to a disproportionately greater extent. Keyence increased its overall revenue to a considerable extent despite COVID-related downtime in China.

Despite the lockdowns in China and weaker macro-economic growth, our companies' second-quarter results are showing mean organic revenue growth of 18%. Fund price performance should track this performance in the long term, giving us optimism for the further course of the year and for fund performance.

MAINFIRST GLOBAL DIVIDEND STARS & MAINFIRST EURO VALUE STARS

Thomas Meier, Christos Sitounis

MAINFIRST GLOBAL DIVIDEND STARS

CENTRAL BANKS WORLDWIDE RAISE INTEREST RATES IN SYNC

July was the best month so far this year for equity markets. Central banks, especially the Federal Reserve and the ECB, raised interest rates to curb rampant inflation. Furthermore, reporting season is starting and the market participants are looking very closely at outlooks due to the slowdown in global economic momentum. The S&P 500 and the DAX climbed 9.1% and 5.5%, respectively.

High inflation rates of over 7% in the US and Europe made central banks determined to combat inflation. In the US, the Fed raised its key interest rate by 75 basis points to the 2.25–2.5% range. The monetary authorities expect further hikes to be appropriate. At 9.1%, inflation in the US is currently the highest it has been in around four decades. The Fed is expecting interest rates at year-end of 3% to 3.5% and its dynamic approach could plunge the US economy deeper into recession. The US is currently in a technical recession, as the economy contracted by another 0.9% in the second quarter. In Europe the key rate hike was steeper than expected. The ECB raised the key rate by 50 basis points to zero. This brings its negative interest rate policy to an end after eight years and marks the first interest rate rise in 11 years. The ECB also announced a new tool: the Transmission Protection Instrument (TPI), the aim of which is to ensure that the change in interest rate policy does not disproportionately affect the highly indebted euro zone states, especially on the southern periphery. For the year as a whole, the EU Commission expects inflation to average 7.6% in the euro zone. The difference in pace between the US and Europe is down to Europe's energy problem. The euro/dollar exchange rate reflects market participants' pessimism. The price of the euro fell against the US dollar to a 20-year low and was slightly above parity at the end of July.

In China, the economy treaded water due to the knock-on effects of the strict zero-COVID policy. Chinese GDP grew by only 0.4% in the second quarter, the weakest it has been since the beginning of the coronavirus pandemic. Market participants are concerned that the zero-COVID policy combined with the faltering real estate sector could trigger a deep recession.

July saw a rotation from defensive to cyclical sectors. Relative winners included industrial companies, tech stocks and retailing. Telecoms stocks, insurers and healthcare companies were among the biggest losers in relative terms. The performance of tech stocks was positive thanks to the good quarterly results of Amazon, Microsoft and Alphabet.

In July we neither opened new positions in MainFirst Global Dividend Stars nor closed any. We made major additions to our Shimano, Amundi and Sika positions, while scaling back our holding in Holcim.

MAINFIRST EURO VALUE STARS

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In Italy Prime Minister Mario Draghi resigned after members of the coalition withdrew backing. Fresh elections will be held on 25 September. Many market participants are concerned by Draghi’s resignation, as important reforms could fall by the wayside. The International Monetary Fund has adjusted its growth forecasts for the euro zone. Owing to high inflation and the energy crisis, the IMF expects growth of 2.6% for 2022 and 1.2% for 2023.

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We added a new position to MainFirst Euro Value Stars in July: the French asset manager Amundi. The weighting of Covestro was also increased significantly, while holdings in Deutsche Pfandbriefbank were scaled back.

MAINFIRST EMERGING MARKETS CORPORATE BOND FUND BALANCED & MAINFIRST EMERGING MARKETS CREDIT OPPORTUNITIES FUND

Andranik Safaryan, Cornel Bruhin, Roman Kostal, Carloalberto Fraccaro

MAINFIRST EMERGING MARKETS CORPORATE BOND FUND BALANCED

MARKET REVIEW

Markets rebounded in July with global equities up 7.9%, driven mainly by the US. At the end of July, the Fed increased the Fed Funds Target Rate by 75 bps, bringing the upper bound to 2.5%, the highest point of the previous tightening cycle in 2017-2018. While the hike was expected, what contributed to the risk-on mood were the comments from Fed Chair Jerome Powell, who considered it appropriate to slow the pace of hikes as the central bank assesses the impact of less accommodative financing conditions on the economy and inflation going forward. Powell's comments supported the further rally in US Treasuries that started earlier, based on data suggesting a slowdown of the US house market. The 10-year Treasury yield dropped 36 bps to 2.65% at the end of the month with the 10y2y curve inverting to -23.6 bps, suggesting that the markets expect a slowdown of the US economy going forward. The US economy has already been losing some steam, with the GDP showing a second consecutive quarter of contraction in Q2 (-0.9% QoQ).

Weak economic fundamentals and falling Treasury yields contributed to an improved sentiment in EM bonds with the CEMBI BD index up 1% in July. High yield outperformed investment grade by 0.4% with the high-beta segment up 1.3%. Though commodity prices were generally lower, the Middle East and LATAM outperformed Europe, Asia and Africa.

In China, policymakers locked down some production sites and town districts, despite Covid numbers being much lower than in April. This has already translated into weaker data, with the manufacturing PMI dropping to 49 in July after rebounding to 50.2 in June. At the same time, the non-manufacturing component has remained above 50 in expansionary territory. It is worth mentioning that the share of GDP currently locked down is much lower than what we have seen in the first half of the year.

FUND PERFORMANCE

The MainFirst Emerging Markets Corporate Bond Fund Balanced delivered a negative return of 0.9% in July, underperforming the CEMBI BD index by 2%.

From a country perspective, negative contributors were our overweight in China, particularly driven by a weak property sector, and in Mexico, driven mainly by weak non-bank financials. Additionally, our underweight in Macao was responsible for around 37 bps of underperformance compared to the benchmark, as issuers in the gaming business recovered strongly in July. On the positive side, our overweight in Indonesia contributed positively.

From a sector perspective, our overweight to Real Estate (mainly China property) and our underweight to Consumer (Macao gaming) contributed negatively, while our overweight to Transport and Oil & Gas contributed positively to relative performance. In Metals & Mining, security selection was positive relative to the benchmark.

OUTLOOK

We are maintaining our positive outlook for this second half of the year as EM corporate fundamentals remain strong (with the exception of idiosyncratic stories from Russia, Ukraine and the Chinese property sector) and valuations are at very attractive levels. EM corporate fundamentals continue to benefit from strong commodity prices. From this perspective, Middle East, LATAM, selected African and Asian countries are poised to benefit the most from this trend. While some commodity prices came down recently, we expect them to remain well supported, driven by low inventory levels and a constrained supply. Many corporates in our portfolio produce healthy margins with the current prices and will deleverage further in the second part of the year.

While China has been suffering from the economic impact of mounting lockdowns in the first half of the year, the fiscal expansion pledged by the Chinese government lately will have a positive impact on growth in the second part of the year. Money raised by high level of issuance of special government bonds and other instruments is currently being spent on infrastructure investments. As the stimulus trickles down into the real economy and China continues vaccinating its population, we expect the property sector and bond prices to recover. Nevertheless, despite recent news around a CNY 300bn rescue fund for the property sector, we believe that the authorities have to come up with a stronger proposal to solve the crisis and restore investors' confidence.

It is our view that after the strong repricing in the first half of the year, US Treasury yields have already peaked back in June and will not be a drag on total returns in the second half of the year. As the Fed keeps tightening its monetary policy, going forward we expect the central bank to be more sensitive to the growth outlook. Risks are tilted to less hikes than what the market is currently pricing in.

MAINFIRST EMERGING MARKETS CREDIT OPPORTUNITIES FUND

MARKET REVIEW

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FUND PERFORMANCE

The MainFirst Emerging Markets Credit Opportunities Fund delivered a negative return of 2.2% in July, underperforming the CEMBI BD HY index by 3.4%.

From a country perspective, negative contributors were our overweight in China, particularly driven by a weak property sector, and in Mexico, driven mainly by weak non-bank financials. Additionally, our underweight in Macao was responsible for around 87 bps of underperformance compared to the benchmark, as issuers in the gaming business recovered strongly in July. On the positive side, our overweight to Oman and our underweight to the Philippines and Hong Kong were both positive contributors.

From a sector perspective, our overweight to Real Estate (mainly China property) and our underweight to Consumer (Macao gaming) contributed negatively, while our overweight to Transport and Oil & Gas contributed positively to relative performance. In Metals & Mining, security selection was positive relative to the benchmark.

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