Investment Report

September 2017

Strategy overview

After Labor Day in the USA, the relatively quiet summer is now drawing to a close. The interim reporting season is more or less over, and most corporate results have been robust. Published economic figures also suggest that growth is solid and synchronous in industrialised states as well as in emerging countries. Perfect world for financial markets, one might be inclined to think! Unfortunately, this summer fairy tale has been repeatedly undermined by man-made events: domestic policy uproar in the USA following right-wing disturbances in Charlottesville, further provocations addressed by a megalomaniac president in North Korea to the global community, as well as inhuman terrorist attacks in Barcelona kept investors on tenterhooks. Despite these events, stockmarkets proved remarkably resilient. While stockmarkets slipped back from their highs for the year (although the actual losses were moderate), there were clear signs of a flight to safer assets. Yields on government bonds have declined significantly, and the price of a fine ounce of gold in USD rose to the highest it has been this year.

"Positive economic and corporate figures have been neutralised by political events. There have been clear signs of a flight to more secure assets such as gold and government bonds."

Even though the euro briefly hit a new high of 1.2070 against the US dollar, the highest it has been since January 2015, it was relatively quiet on the currency front in comparison to the previous month. Only the British pound continued to lose terrain, against the backdrop of government "floundering" in the face of Brexit negotiations.

"The euro recorded its highest level against the US dollar since January 2015".

Having decided at the end of July to trim the risk tactically, and to use a suitable instrument to hedge some of the gains and portfolios, we left the positioning unchanged in the month under report.
In overall terms, during the course of the year 2018 central banks around the world are set to sell more bonds than they buy, which will lead to a global rise in bond yields.

"Partial hedging against unforeseen price falls is enabling us to keep the risk budget stable."

Economy

Following a period of weakness in the early summer, the economic figures coming out of the USA are now giving us grounds to be more optimistic. ISM Manufacturing, for example, the index which measures sentiment within the manufacturing sector, reached its highest level since April 2011 at 58.8 points. The labour market also remains in fine fettle, despite the fact that the number of new jobs created in August (as is often the case for August) was slightly weaker. This was due to the need to correct data collection errors, which had a negative impact on subsequent months.

"Growth in the USA is continuing to pick up sharply."

Within the Eurozone, the European Commission's sentiment indicator rose again in August, reaching the highest level recorded since July 2007. This figure confirms other leading indicators that are pointing towards consistently robust growth within the Eurozone. At the same time, consumer price inflation remains subdued. Core inflation remained flat in year-on-year terms at +1.2%. Despite the high growth momentum, the latest inflation data are unlikely to prompt the European Central Bank (ECB) to tighten its monetary policy. Instead, in order to stop the euro growing even stronger, the ECB is likely to stick to its carefully-considered approach for the present.

"Sentiment in Europe is also the highest it has been for several years."

In overall terms, emerging countries have also been showing improved economic data: PMI figures above 50 (implying an expanding economy), and substantial declines in inflationary data in many countries. The latter factor is giving local central banks further scope for stimulating interest rate cuts.

"Falling inflation means central banks in emerging countries have scope for interest rate cuts."

Equity markets

It has been mentioned in many quarters of late that the start of the global financial crisis, which was triggered by the closure of a number of investment funds in the "sub-prime" mortgages field in August 2007 and peaked in September 2008 with the bankruptcy of Lehman Brothers, is approaching its tenth anniversary. The current bull market, which began in March 2009 when the S&P index bottomed out at 666 points, is certainly getting long in the tooth; the index currently stands at 2,471. This means the current stockmarket upturn has already lasted 8 years, producing price gains of over 270%. Does this mean the next correction is imminent?

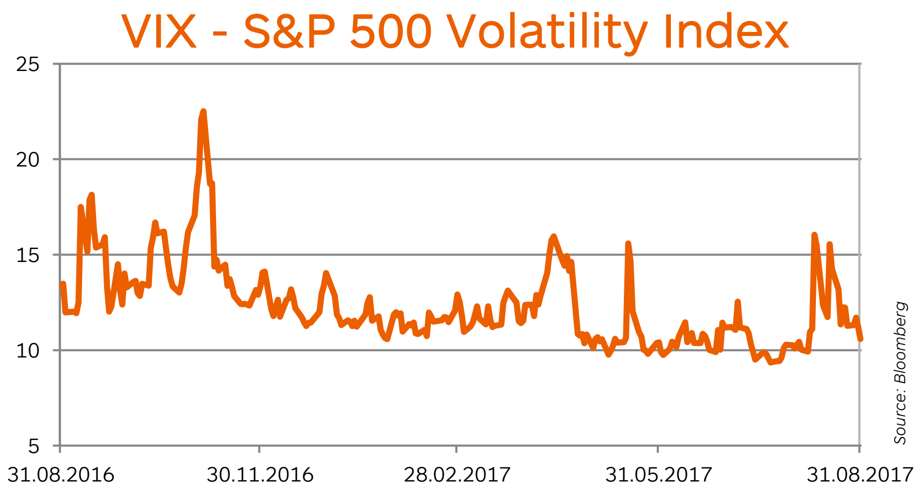
"The tenth anniversary of the start of the global financial crisis is approaching."

"Price gains on the US equity market amount to 270%, measured in terms of the S&P 500."

There is an old stockmarket saying that bull markets do not die on account of their age, but instead because of fear of a recession. Recent economic data coming out of the USA, Europe and emerging countries show no signs of recessionary tendencies, although the flattening of the interest rate curve in the USA is a cause for concern.

"Bull markets do not fade on account of their age, but instead from fear of a recession."

Provided the geopolitical situation does not deteriorate dramatically, we consider that while we are in a "mature" bull market, this could still have several years to run. At the same time, however, the future is also likely to bring major setbacks.



“Level of fear increased on equity markets”

Bond markets

To date, the US government has not managed to implement the promised economic stimulus measures, such as a tax reform, reduced red tape and greater infrastructure spending. This has tempered the interest rate outlook on the other side of the Atlantic. The likelihood for a further interest rate move in December 2017 is currently only in the region of 25%.

"Expectations of further interest rate hikes in the USA have fallen sharply."

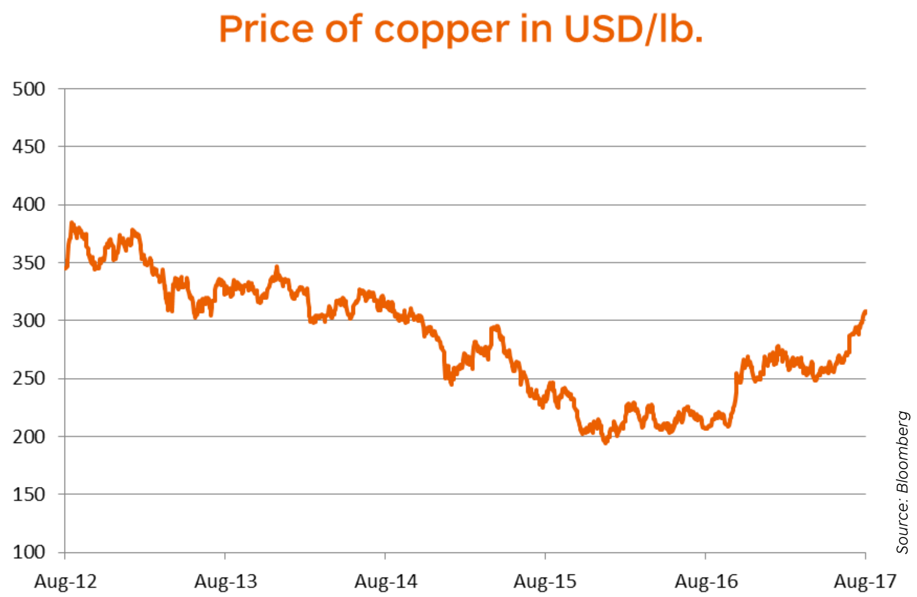
Over the next few weeks capital markets are likely to be characterised by the influence of central banks: we are expecting the ECB to signal its intention to reduce its purchases of securities (so-called "tapering") and the US Federal Reserve to announce its plan to reduce the balance sheet total. In addition the re-election or successor of FED Chair Janet Yellen at the beginning of 2018 is overshadowing developments.

"In Europe and the USA, key decisions on future central bank policies are set to be taken over the next few weeks."

Commodities

Investors are continuing to favour base metals. In recent weeks, the steady decline in the US dollar coupled with contracting supply, which is meeting surprisingly strong demand from China, have pushed prices for industrial metals to their highest level in years. At the same time, precious metals are benefiting from heightened geopolitical risks associated with the worsening tensions with North Korea. At the end of the month the energy sector was hit by the effects of Hurricane Harvey, which caused substantial damage along the US gulf coast, undermined oil production and knocked out one quarter of US refinery capacities. The latter put oil prices under pressure, pushing the price of oil products such as petrol and diesel sharply higher.

"Demand for base metals remains strong. The performance of the price of copper provides grounds for optimism for the economic outlook."



Currencies

Despite the fact that US Federal Bank Chair Janet Yellen and ECB President Mario Draghi said little of substance about the direction of future monetary policies at their meeting in Jackson Hole, the US dollar in particular continued its downward slide. The euro reached its highest level against the US dollar since the beginning of 2015 at 1.20.

"Central bank meeting at Jackson Hole produces no new developments."

This currency development is also having an impact on equity market returns: since the start of the year, for example, the global equity index MSCI World has now lost everything it gained since the start of the year in euro terms (excluding currency hedging).

The aggressive stance of the North Korean leader has recently been having a greater impact on the performance of the Japanese yen (JPY) than on the Swiss franc. The efforts of the Bank of Japan to weaken the JPY have so far proved ineffective.

"Tensions with North Korea caused the JPY to post gains."

FACTUM

Market overview 31.08.2017

		1 Mt (%)	YtD (%)
SMI	8'925.45	-1.43	12.04
Euro Stoxx 50	3'421.47	-0.71	6.90
Dow Jones	21'948.10	0.65	13.01
S&P 500	2'471.65	0.31	11.93
Nikkei 225	19'646.24	-1.34	3.83
Gold (USD/Feinunze)	1'321.43	4.10	15.16
WTI-Öl (USD/Barrel)	47.23	-5.86	-12.08
USD 10 Jahre	2.12	-0.18	-0.33
CHF 10 Jahre	-0.14	-0.19	0.05
EUR 10 Jahre	0.36	-0.18	0.15
EUR/CHF	1.14	-0.27	6.51
USD/CHF	0.96	-0.85	-5.92
EUR/USD	1.19	0.57	13.25
GBP/CHF	1.24	-2.97	-1.47
JPY/CHF	0.87	-0.62	0.10
JPY/USD	0.01	0.25	6.39

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