

# Investment Report

August 2024

Factum AG Current positioning:			
Portfolio balanced	Neutral	Current	Change*
Liquidity	3%	3%	→
Bonds	35%	35%	→
Shares	47%	45%	→
Alternative investments	15%	17%	→

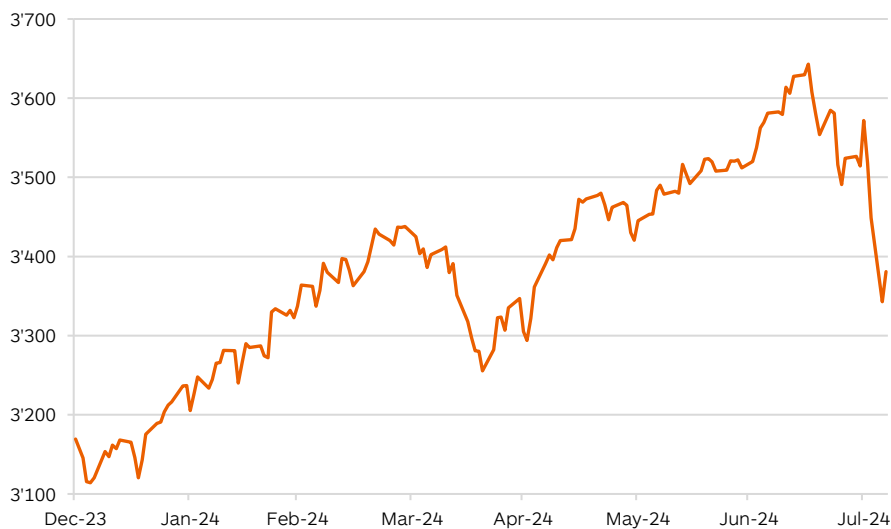
*\*Changes since the last Investment Report (4 July 2024) & current assessment.*

## Strategy overview

"Risk happens fast" is an old stock market saying. At the beginning of August, this proved to be true once again when the global equity markets entered a so-called "risk-off" phase. Investors were alarmed by poor macro figures (ISM Manufacturing and the US labour market) and disappointing corporate figures from the IT sector concerning AI (Google, Intel, Amazon, etc.). In addition, the Bank of Japan heralded the start of the interest rate hike cycle and, with its statements, put an end to the JPY carry trade, which is the main reason why the Japanese equity market lost 12%, but was able to gain 10% the day after. This toxic cocktail was made even stronger by relatively thin trading volumes, sudden US recession fears and seasonality - August is historically a bad month for the stock markets. These events reminded some stock market veterans of the Black Monday in 1987, when the Dow Jones plummeted by 22.6% within a single day.

"Global stock markets will not quickly forget 5 August 2024."

### World Equity Index



Source: Bloomberg Finance L.P., Factum AG

The rate of return on the 10-year US Treasury has dropped in the past few days from 4.15% to currently 3.89%. Now the market is again expecting interest rate cuts of 100 basis points by the end of the year, after 45 basis points were expected around a month ago. The next few weeks will show whether this is really going to be the case. In any case, the Fed has the necessary room for manoeuvre thanks to the relatively high level of interest rates, the highest for 23 years. The next meeting of the Fed will take place in September.

"The Fed has sufficient room for manoeuvre in lowering interest rates."

The Investment Committee has long been of the opinion that a market consolidation is imminent and necessary to ensure that the overall upward trend remains sustainable. This is reflected by underweighting the equity allocation in the portfolios we manage. The question now is whether the spook on the stock market will soon be over and was simply a cleansing thunderstorm, or whether we are in for a stormy autumn. Tensions in the Middle East, where Iran is expected to attack Israel, have the potential to increase the volatility again in the short term. However, we believe that the underlying data, especially in the USA, is fundamentally sound so that a recession is not to be expected. In our view, however, the situation is likely to remain volatile over the next few weeks. On the whole, however, we are constructively in favour of risky investments. Once again, we would like to mention how important it is to keep emotions under control, not to make gut decisions but to act rationally. Fluctuations, sometimes even major ones, are part and parcel of investment matters; the important thing is to achieve medium to long-term investment success. After the World Equity Index fell from its mid-July peak by

"We took advantage of the price losses, some of which were massive, and rebalanced equities, i.e. brought them back in line with the original allocation - overall, we remain underweight in equities."

around 8%, we decided to rebalance the equity allocation. This means that we have adjusted the equity quota in a mandate with a balanced investment profile towards the original quota of 45%. Overall, we remain slightly underweight in equities.

### Politics

Tensions in the Middle East have risen dramatically following two targeted attacks by Israel, which took out the high-ranking Hizbullah commander Fuad Shukr and the head of the Hamas political bureau Ismail Haniya. Since then, a massive counter-attack by Iran and its proxy the Hizbullah in Lebanon must be reckoned with. In the worst-case scenario, there is a risk of a widespread conflagration and consequently a major war in the entire Middle East. The US administration has been trying for months to mediate and ensure a de-escalation with a ceasefire and the release of the hostages held by the Hamas. The negotiations have been going round in circles for months and it can be assumed that they will only be resumed once Iran has retaliated the military strikes by Israel.

"Iran is expected to attack - fear of a new Middle East war grows."

Events in US politics snowballed last month. On 13 July, Donald Trump survived an assassination attempt during a campaign appearance in Pennsylvania. He was hit on the ear before being led away by security guards. On 21 July, President Biden announced that he was withdrawing his candidacy for the White House and at the same time recommended his Vice-President Kamala Harris as his successor. The Democratic National Convention will take place in Chicago, Illinois, from 19 to 22 August.

"Events in US politics snowballed in July."

The decision of Biden to drop out has given the Democrats new momentum. Harris has made an excellent start and Trump's lead is shrinking. In the election campaign four years ago, Biden led by up to ten percentage points in the polls and ultimately only just managed to retain the upper hand. However, seen from a historical perspective, a short-term change of candidate has never led to a new president. The events of the past few weeks in particular, with Biden's TV debate disaster and the assassination attempt on Trump, show that a lot can still happen in the remaining three months until the presidential election. Harris is currently ahead in national polls, but that is not what matters. It is not the popular majority that decides, but the electoral votes, with the so-called "swing states" tipping the scales.

"The presidential race in the USA is wide open."

### Economy

The market reacted with a cold sniff to the weak economic data from the US, in particular the disappointing labour market report for July, with the number of new jobs created once again falling short of expectations and the unemployment rate rising to 4.3%. The US Purchasing Managers' Index was also surprisingly weak. The barometer fell from 48.5 to 46.8 and is approaching the cyclical lows of the summer of 2023. As the basic data for the US private sector remains favourable, we do not believe it is appropriate to raise the spectre of a recession.

"We do not believe it is appropriate to raise the spectre of recession."

### Equity markets

5 August 2024 clearly demonstrated how quickly sentiment on the global stock markets can change. For example, the S&P 500 lost around 3% of its value, the Dax 2%, the SMI 3% and Japan saw a cascade-like fall of 12.5%. If the losses of the previous days are added together, the Japanese Nikkei fell by as much as 20% from its peak. On 10 July, the Japanese Nikkei reached an all-time high of 42,400 points.

"Once again, we were reminded of how quickly the mood on the stock markets can change."

Nikkei 225 Index



Source: Bloomberg Finance L.P., Factum AG

Once again, we would like to mention how important it is to keep emotions under control, not to make gut decisions but to act rationally. Fluctuations, sometimes even major ones, are part and parcel of investment matters; the important thing is to achieve medium to long-term investment success.

"The focus is on medium to long-term investment success and not on short-term market fluctuations."

### Bond markets

Following the Swiss National Bank, the ECB and the Bank of Canada, the Bank of England also lowered interest rates by 25 basis points. Although the Federal Reserve remained silent once again, it is likely to cut interest rates in mid-September, partly due to the recent market turmoil. The recent easing on the inflation front was welcomed by the Fed. As a result, the focus is on the labour market, which is cooling down.

"The trend towards global interest rate cuts is continuing."

### Commodities

Gold performed reasonably well during the recent market turbulence and is currently trading around 16% higher than at the beginning of the year. The difficult geopolitical environment, the uncertainty surrounding the US presidential election and the global downward trend in interest rates particularly favour gold.

"We consider gold to remain to be a fixed portfolio component."

### Currencies

The Swiss franc benefited from the deterioration in sentiment on the financial markets. This has led to corrections in risky investments and meant that safe havens have been in demand. The appreciation of the Swiss franc took place despite expectations of higher interest rate cuts by the Swiss National Bank (SNB). The market now expects the SNB to cut the key interest rate at least twice by mid 2025. However, a cut of this magnitude would mean an even stronger currency, a further economic slowdown or clearer deflation risks.

"The Swiss franc as a safe haven."

In the current market turmoil, Bitcoin and other cryptocurrencies have once again failed to prove that they can provide stability in a portfolio. Bitcoin is currently trading around 23% lower from its high for the year. Bitcoin is a risky investment and correlates strongly with the stock markets.

"Bitcoin cannot be compared with gold."

## Market overview 31 July 2024

Stock indices (in local currency)	Current	28/6 – 5/8 (%)	YtD (%)
SMI	11,510.46	-4.03	6.56
SPI	15,346.10	-3.60	5.32
Euro Stoxx 50	4,575.22	-6.35	4.10
Dow Jones	38,997.66	-0.21	4.57
S&P 500	5,240.03	-3.95	10.74
Nasdaq	16,366.85	-7.68	9.47
Nikkei 225	34,675.46	-12.39	4.52
MSCI Emerging Countries	1,030.86	-4.58	2.71

## Commodities

Gold (USD/fine ounce)	2,390.82	2.75	15.89
WTI oil (USD/barrel)	73.20	-10.23	2.16

## Bond markets

US Treasury Bonds 10Y (USD)	3.89	-0.50	0.01
Swiss Eidgenossen 10Y (CHF)	0.40	-0.20	-0.30
German Bundesanleihen 10Y (EUR)	2.20	-0.30	0.18

## Currencies

EUR/CHF	0.93	-3.33	0.20
USD/CHF	0.85	-5.26	1.20
EUR/USD	1.09	2.03	-0.98
GBP/CHF	1.08	-4.90	0.85
JPY/CHF	0.59	5.63	-1.16
JPY/USD	0.01	11.45	-2.28

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