Investment Report

February 2024

Factum AG
Current positioning:

Portfolio balanced	Neutral	Current	Change*
Liquidity	3%	4%	→
Bonds	35%	35%	→
Shares	47%	44%	→
Alternative investments	15%	17%	→

**Changes since the last Investment Report (17 January 2024) & current assessment.*

"Geopolitics vs. the investment market."

Strategy overview

From a geopolitical point of view, the world has created the impression of being built on sand for some time now. The situation in the Middle East should be mentioned here. Also, Taiwan is moving away from China following the election of the new President. In addition, the war in Ukraine continues to ramp on unabatedly and demonstrations centred around the AfD have been taking place in Germany. On top of that, Germany and its government have had to grapple with railway strikes as well as the protests of farmers. On the other hand, the global stock market boom continues to be fuelled by euphoria in the technology sector. In the process, the stock markets in America - S&P 500, Dow Jones and Nasdaq 100 - have reached new record highs. Inflation in the US, which has been receiving considerable attention, as well as the idea that the interest rates could fall in line with it, will probably take centre stage in the coming months. Currently, the Fed is expecting three interest rate cuts of 0.25% each in 2024, while the consensus in the financial market is looking for twice as many. Political considerations could also play a role here. Should the US economy weaken significantly as a result of interest rates remaining high for too long, Donald Trump's chances of being elected in the US presidential elections in November would increase.

All in all, the start to the 2024 investment year has been a success. For example, an asset management mandate managed by us with a balanced risk profile gained around one per cent in value in January. Last month, we made a slight adjustment to the portfolios under our management by slightly increasing the proportion of bonds in the domestic market at the expense of global bonds. Overall, we remain neutrally weighted in bonds. We have not changed the slight underweighting of equities, as the parameters that we consider relevant, namely the economy, valuation, technology and sentiment, justify this.

"We have slightly adjusted our positioning of the bond quota in the past month."

Nasdaq 100

Politics

In recent months, there have been repeated incidents in the Red Sea, with the Iranian-backed Houthi attacking merchant ships. Now the US and its allies have struck back and attacked positions of the Houthi, who are in power in parts of the Yemen. This punitive action against the Houthi has been building up over the last few weeks. Around ten per cent of global trade passes through the Red See and the Suez Canal. This route is particularly important as a connection between Asia and Europe, but also for the supply of gas and oil from the nearby Gulf states.

"The USA is attacking Houthi positions in Yemen."

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Economy

The US Federal Reserve has left the key interest rate unchanged, but has done away with the "tightening bias" in its communication. At the same time, Fed Chairman Powell does not see a rate cut in March as part of the baseline scenario.

"The Fed is laying low."

Similarly, the Bank of England is not adjusting its monetary policy and has also removed the passage stating that it will raise interest rates further, if necessary. One member of the nine-member committee is now voting in favour of a rate cut, while two monetary policymakers are still voting in favour of an increase.

"The BoE is not adjusting its monetary policy either."

The inflation rate in the eurozone fell to 2.8% in January. This means that inflation keeps coming down, even though the pace has slowed down somewhat.

"The inflation rate in the eurozone continues to fall."

Around 350,000 jobs were created on the US labour market in January, almost twice as many as expected. The level of wages also rose again.

"350,000 new jobs in the USA in January."

Equity markets

The global equity markets are still pricing in significant interest rate cuts, especially in the US and the eurozone. In addition, a growth rate of 10% is being forecast for corporate profits in the USA. The main forces driving this development are the highly capitalised technology companies. The end of the cycle of interest rate hikes will have a positive impact, if the inflation rate falls sharply in the direction of the central bank's target of 2% and, at the same time, economic growth does not weaken significantly, but only marginally, i.e. if there is a so-called "soft landing". Should the economy experience a "hard landing", however, the consensus estimates of corporate earnings are likely to prove to be too optimistic. In view of these facts, we consider it sensible to exercise a certain degree of caution in the equity allocation at the moment. This justifies a slight underweighting of the equity allocation overall.

"Market consensus is assuming significant interest rate cuts as well as sustained growth in corporate profits."

Bond markets

At its January meeting, the US Federal Reserve left the key interest rate unchanged for the fourth time in a row. However, the Fed cancelled its willingness to further tighten monetary policy in its announcement on the interest rate decision. As a result, for the first time since the start of the rate hike cycle, the so-called "tightening bias" no longer applies. As a result, the Fed is taking another small step towards the first interest rate cut. However,

"The Fed is not expected to make an interest rate cut in March."

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Fed Chairman Jerome Powell has, for the first time, explicitly commented on a possible interest rate cut in March, which he considers unlikely seen from today's perspective. The markets were probably expecting a less explicit response regarding a rate cut. The market expectation of an interest rate cut in April is now around 20%. US government bonds with a 10-year maturity fell by 30 basis points to 3.91% at the end of January. One possible interpretation is that the longer central banks wait to cut interest rates, the higher the economic risks become. At the same time, communication from the central bank has also dampened inflation expectations. Yields on 10-year US Treasuries rose again towards 4.10% following the surprisingly solid labour market report at the end of January. As a result, the US dollar index climbed to its highest level in around seven weeks.

Commodities

The latest economic outlook had a positive impact on the prices of the commodities that are sensitive to the economy. For example, the price of a barrel of US WTI crude oil rose by around six per cent to 76 USD in January. This was also helped by an unexpectedly strong reduction in oil stocks in the USA and the geopolitical risks, which still remain significant. Industrial metals also staged a clear countermovement compared to the first half of the month. However, the gold price continued to consolidate and we are maintaining our neutral stance.

"The price of WTI crude oil rose by around six per cent in January."

Currencies

The US dollar, which has become weaker particularly against the Swiss franc since October last year, is factoring in interest rate cuts. This could speak in favour of the US dollar, at least in the short term. On the other hand, given the high level of government debt, President Biden is likely to find it difficult to maintain the fiscal stimulus and keep economic growth as high as in 2023, which, as a result, would not support the US dollar. It would not be surprising should the Swiss franc continue to present itself from its strong side in the current year. In particular, this would come as no surprise should the political tensions increase, for example in the run-up to the US elections, as a result of geopolitical risks that are likely to rise with the possible election of Donald Trump, or the pitfalls in the Middle East.

"The Swiss franc remains in demand in uncertain times."

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Market overview 31 January 2024

Stock indices (in local currency)	Current	1 Mt (%)	YtD (%)
SMI	11,333.38	1.76	1.76
SPI	14,774.50	1.40	1.40
Euro Stoxx 50	4,648.40	2.97	2.97
Dow Jones	38,150.30	1.31	1.31
S&P 500	4,845.65	1.68	1.68
Nasdaq	15,164.01	1.04	1.04
Nikkei 225	36,286.71	8.44	8.44
MSCI Emerging Countries	975.80	-4.64	-4.64
Commodities			
Gold (USD/fine ounce)	2,039.52	-1.14	-1.14
WTI oil (USD/barrel)	75.85	5.86	5.86
Bond markets			
US Treasury Bonds 10Y (USD)	3.91	0.03	0.03
Swiss Eidgenossen 10Y (CHF)	0.84	0.14	0.14
German Bundesanleihen 10Y (EUR)	2.17	0.14	0.14
Currencies			
EUR/CHF	0.93	0.32	0.32
USD/CHF	0.86	2.38	2.38
EUR/USD	1.08	-2.00	-2.00
GBP/CHF	1.09	1.99	1.99
JPY/CHF	0.59	-1.79	-1.79
JPY/USD	0.01	-4.01	-4.01

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