Investment Report

May 2024

Factum AG
Current positioning:

Portfolio balanced	Neutral	Current	Change*
Liquidity	3%	3%	↘ (-1%)
Bonds	35%	35%	→
Shares	47%	45%	↗ (+1%)
Alternative investments	15%	17%	→

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

Strategy overview

The global financial markets were a little 'bumpier' in April after an extremely successful first quarter. There are two primary causes for this: Firstly, geopolitics with the hotspots Israel and Iran and the associated risk of an escalating conflict, as well as the faltering trend towards disinflation in America. From a global perspective, we are observing that the situation in Europe and the rest of the world is becoming more dynamic. Despite the 'bumpy' month of April, we still believe that the economic outlook remains positive. We have taken advantage of the weaker equity days in April and increased our equity allocation slightly, although overall we are still underweight.

"A bumpy month for equities in April."

Our (economic) indicators for the assessment of the stock markets, especially those for the US market, have improved and show a more positive picture. Most recently, our 'sentiment' indicator has also moved into the neutral zone, which has raised the superordinate signal (still burdened by the historically high valuation) to 'neutral'. This is why we have increased the US equity

"Increase in US equity ratio."

weighting in all risk profiles by 1% to a neutral weighting, but remain somewhat cautious overall (we are maintaining our underweight for emerging markets for the time being).

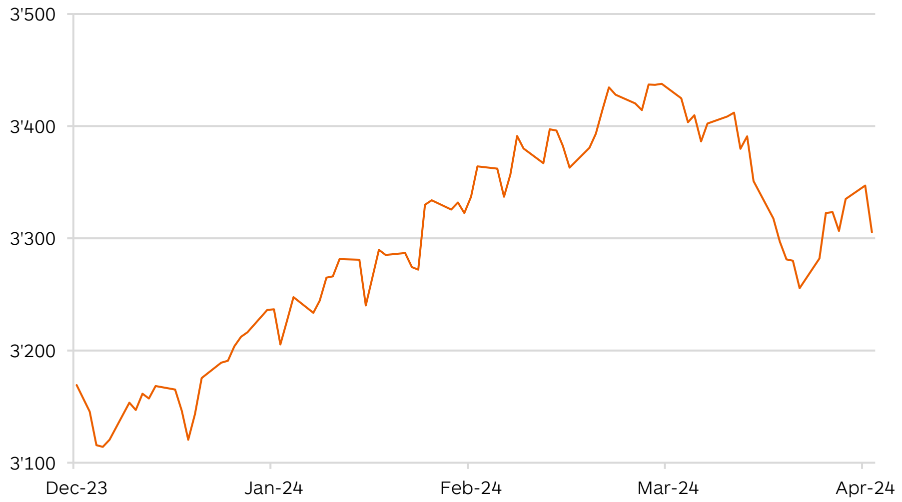
The 'overvaluation' of the S&P 500 compared with other equity markets and our own history has prompted us to slightly adjust the composition of the US equity allocation. We are now adding the Xtrackers S&P 500 Equal Weight at the expense of the iShares MSCI USA ESG Screened. This indirectly increases the 'value' exposure at the expense of that of growth' and the exposure of small and mid-capitalised companies at the expense of the 'mega caps' (such as Microsoft, Apple, Nvidia, Amazon and Meta).

"Change in the composition of USA shares."

Due to the significant rise in the price of gold in recent weeks, we have taken some of the gains, depending on the reference currency, and returned our ratio back to the original level of 3%.

"Rebalancing the gold quota."

World Equity Index



Source: Bloomberg Finance L.P., Factum AG

Politics

Negotiations are currently underway in Cairo regarding a ceasefire in the Gaza war. A first stage would see the release of 20 hostages over a period of three weeks in exchange for Palestinian prisoners. A second stage would involve a ten-week ceasefire during which Hamas and Israel would commit to a large-scale release of hostages and a pause in fighting that could last up to a year. Should an agreement not be reached soon, Israel is likely to begin the announced offensive on the ground in the city of Rafah. The next few days and weeks will show whether there really is an easing of tensions in the Gaza

"Apparently, Israel is willing to make concessions for a Gaza deal."

war. This would be more than desirable for humanitarian reasons and would have a positive impact on the international investment markets.

Economy

Our assessment of the economic trend was largely confirmed by the economic data that has been published in recent weeks. In Europe, the Purchasing Managers' Indices (PMI) rose, signalling the continuation of the recovery. In the Pacific region, it has confirmed the robust economic development to date. However, the price components of the PMIs also rose in both regions, indicating a less rapid decline in inflation than had originally been anticipated. In the US, the PMIs and the GDP growth estimate for the first quarter both pointed to a slowdown in economic momentum. Quarter-on-quarter GDP growth in the US was unexpectedly weak at 1.6% and the GDP deflator was surprisingly strong at 3.1%. This further reduced the probability of interest rate cuts on the futures markets for the upcoming meetings of the Fed's Open Market Committee.

"From a global perspective, a slowdown in growth can be observed in the USA, while Europe and the rest of the world are gaining momentum."

Equity markets

Persistent inflation in America has led to a correction in market expectations with regard to interest rate cuts in the US by the Fed. The equity markets are not benefiting from the rise in market interest rates, but as the trend in economic data is improving, the global economy is expected to grow, which will also support corporate profits. In particular, there has recently been an increase in earnings estimates for US companies. A positive change can be seen in the prevailing market breadth. Until a few weeks ago, the so-called ‘glorious seven’, i.e. the tech giants, were responsible for the majority of the positive advances. This has recently changed, as cyclical sectors such as primary commodities, energy and industry have also made their contribution. For example, the exchange-traded index product on the Wisdom Tree Energy Transition Metals Index, which we use, gained around 11% in the past month. The index product focuses on nickel, copper, aluminium, silver and zinc. As global economic data has improved, it makes sense that the cyclical sectors have now also followed suit. That said, we are still taking a sober view of the current situation and do not see any euphoria on the markets, as the outlook from central banks regarding interest rate policy remains a key driver. As already mentioned, we slightly increased our equity allocation last month, but we are maintaining our equity underweight (emerging markets).

"Positive change in market breadth - cyclical sectors such as basic materials, energy and industry have recently recorded positive advances."

Bond markets

As anticipated by the market, the Fed left the key interest rate range unchanged at its meeting on 1 May at 5.25% to 5.50%. The disappointing drop in inflation is another issue to consider. In March, Powell announced at the press conference that the monetary authorities consider interest rate cuts to be appropriate over the course of the year. However, there is now no mention of this passage at all in his comments. Following the surprisingly high inflation figures for the first quarter of 2024, it will undoubtedly take longer for confidence in the disinflation trend to return. This is a prerequisite for an easing of monetary policy.

"The passage in the March statement about possible interest rate cuts in the current year is completely missing from the wording of the statement of 1 May."

Bond yields have risen in recent months as the higher US inflation data is being priced in. However, this has not made bonds any less attractive, as the European Central Bank is hinting at a rate cut in the summer and has reiterated that it is not dependent on the Fed. Since the beginning of the year, Swiss bonds have fared better than those in the eurozone and the US. The decline in inflation has provided the necessary support for this.

"Swiss bonds have held up better than those of the eurozone and the USA since the beginning of the year."

Commodities

Commodities have recently recorded significant advances. The stronger global economic data suggests that demand will increase. In particular, the price of oil and gold is worth mentioning. We believe that there are various reasons for the rise in oil prices. The primary reasons are the Ukrainian attacks on Russian oil refineries and the rising geopolitical tensions between Israel and Iran. In the case of gold, the significant increase in central bank purchases, mainly by China, is worth mentioning, as well as the complex geopolitical tensions. The correlation patterns that have been in place for decades, namely, that rising US real interest rates and a stronger US currency lead to a weaker gold price, no longer seem to apply - at least at the moment. Another positive driving force for the gold price should be the outstanding US debt and the refinancing of government bonds, which are becoming increasingly expensive. Investors are likely to seek refuge in gold to protect themselves against the risk of a potential devaluation of the US currency.

"The correlation patterns that have applied for decades, namely rising US real interest rates and a stronger US currency leading to a weaker gold price, no longer seem to apply - at least at the moment."

The question of why the correlation of gold with real interest rates and the US dollar, which has lasted for decades and has now been disrupted, is undoubtedly a fascinating one. One of the main reasons could be that central banks, especially in emerging markets, have come to realise what risks are associated with investing in US assets. The US government partly uses the international capital markets for sanctions purposes, while precious metals,

"What could the reason be why the decades-long correlation of gold with real interest rates and the US dollar has been disrupted?"

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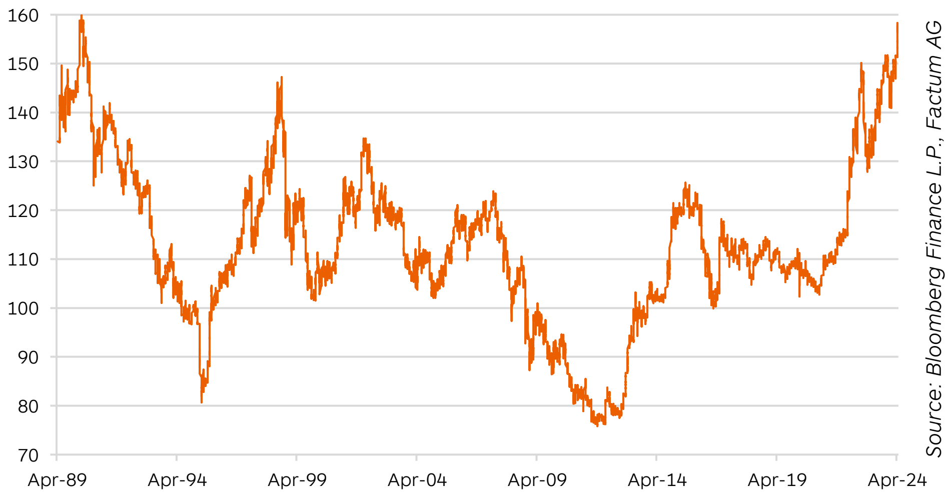
mainly gold, offer some form of protection. This could be another reason why the central banks of the emerging markets are interested in gold. All in all, gold has once again this year demonstrated its important diversification function in a portfolio.

Currencies

The US currency is tending to strengthen, and the adjusted key interest rate expectations are providing a tailwind. This is particularly significant in terms of the Japanese yen, which has lost around 11% against the US currency in the current year. For the first time in 34 years, one US dollar cost more than 156 yen at the end of April. Although the Ministry of Finance and the central bank have begun to intervene verbally, no real measures have yet been taken, especially as the BoJ has continued to adhere to its previous monetary policy. However, the pressure on the central bank to raise interest rates over the course of the year is increasing.

"The Japanese yen continues to weaken."

USD/JPY over 20 years



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Market overview 30 April 2024

Stock indices (in local currency)	Current	1 Mt (%)	YtD (%)
SMI	11,730.43	3.96	6.77
SPI	15,442.86	3.94	5.98
Euro Stoxx 50	5,083.42	4.38	12.94
Dow Jones	39,807.37	2.21	6.14
S&P 500	5,254.35	3.22	10.55
Nasdaq	16,379.46	1.85	9.32
Nikkei 225	40,168.07	3.17	20.82
MSCI Emerging Countries	1,040.39	2.22	2.13
Commodities			
Gold (USD/fine ounce)	2,229.87	9.08	8.09
WTI oil (USD/barrel)	83.17	6.27	16.08
Bond markets			
US Treasury Bonds 10Y (USD)	4.20	-0.05	0.32
Swiss Eidgenossen 10Y (CHF)	0.69	-0.11	-0.01
German Bundesanleihen 10Y (EUR)	2.30	-0.11	0.27
Currencies			
EUR/CHF	0.97	1.78	4.72
USD/CHF	0.90	1.94	7.17
EUR/USD	1.08	-0.15	-2.26
GBP/CHF	1.14	1.93	6.22
JPY/CHF	0.60	1.10	-0.12
JPY/USD	0.01	-0.93	-6.83

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