

Investment Report

November 2023

Factum AG

Current positioning:

Portfolio balanced	Neutral	Current	Change*
Liquidity	3%	4%	↗ (+2%)
Bonds	35%	35%	→
Equities	47%	44%	↘ (-2%)
Alternative investments	15%	17%	→

*Changes since the last Investment Report (10 October 2023) & current assessment.

Strategy overview

October was the third challenging month in a row. This is also reflected in the performance of the portfolios under management. Over the last three months, a portfolio with the Balanced strategy has lost around five per cent in value. Although, from a historical perspective, the last quarter is by far the best, geopolitical factors such as the Hamas attack on Israel on 7 October, the higher oil price, higher government bond yields and the stronger US currency formed a toxic cocktail that the markets were unable to evade. Global equities, for example, lost around 10% of their value between the end of July and the end of October.

Some of our indicators have deteriorated again and now justify an underweight position in equities. For the first time since the early 2000s, the risk premium for equities (as measured by the S&P 500) has fallen below "0". The "escalation" in the Middle East has added a further geopolitical risk. A trend towards a stronger US dollar is likely to be the result of a renewed correction

"October was the third challenging month in a row."

"We sold two per cent of our shares in mid-October."

on the equity markets. This, coupled with the still unresolved structural problems in China, prompted us to reduce our exposure in mid-October by partially selling the iShares MSCI Emerging Markets.

At this point, we would like to emphasise once more that we should not allow ourselves to be led by emotions and rush into hasty action. The US economy is once again proving its resilience and, at its most recent meeting, the European Central Bank decided to pause interest rate hikes for the first time since July 2022. Viewed in the short term, the environment remains extremely tense, but the situation should ease somewhat by the end of the year. The new month got off to a positive start - a portfolio with the Balanced strategy gained around 1.8% in value in the first week of November.

Politics

After a three-week battle of attrition, Mike Johnson has been elected Speaker of the US House of Representatives. He is considered to be a staunch Republican at the right of the hardliners. As a politician, he represents the conservative southern state of Louisiana and has been a member of the House of Representatives since 2017. None of his predecessors have been elected to this high office after such a short period of service. Johnson's advantage over his predecessor McCarthy is likely to be the trust he enjoys among right-wing hardliners. It is quite possible that this will permit him to better sell future compromises with the Democrats to the members of his own parliamentary group. Although he himself holds very conservative positions, Johnson sees himself as a bridge builder and a good listener.

The brutal attack by Hamas on the Israeli civilian population is another global shock and a further indication of geopolitical instability. It is in everyone's interest that the war ends as quickly as possible and remains confined to Israel and Palestine. A possible intervention by the Lebanese Hezbollah in the conflict would have the potential of adding more fuel to the conflict. There is no doubt that the latest events and acts of war show the increased self-confidence of the emerging countries, as Iran is certainly behind Hamas. Increasingly, certain emerging economies are less and less reluctant to engage in armed conflict. However, this can also be partly explained by the fact that the former world police force America is losing influence or is no longer willing to adopt a leading role.

"A more positive start in the month of November."

"Mike Johnson has been elected Speaker of the US House of Representatives."

"The Middle East conflict has flared up again."

Economy

At its November meeting, the US Federal Reserve unanimously decided to leave key interest rates in a target range of 5.25% to 5.50%. Such a decision was unanimously expected. The market is currently anticipating interest rate cuts occurring in the middle of next year.

"The Fed is laying low."

The ISM Manufacturing, which serves as a sentiment indicator for the manufacturing industry, fell unexpectedly sharply from 49.0 to 46.7 points in October. This means that the index has been below the growth threshold of 50 points for almost a year, signalling a significant contraction in US industry.

"Poor economic data from the USA for once."

In October, inflation in the Eurozone once again fell more sharply than expected. According to provisional figures from the statistics authority Eurostat, the annual rate fell from 4.3% to 2.9%, the lowest level for over two years.

"Inflation continues to fall in the Eurozone."

At its most recent monetary policy assessment, the Bank of England left its key interest rate unchanged at 5.25%. The monetary authorities had already refrained from an additional increase in September.

"The Bank of England is also leaving interest rates unchanged."

The Chinese manufacturing sector contracted slightly at the start of the quarter, according to the Purchasing Managers' Index (PMI) compiled by the private survey institute Caixin. The PMI for the manufacturing sector fell from 50.6 to 49.5 points, reaching its lowest level since April of this year.

"China – the situation remains weak."

Equity markets

The stock market reporting season for the third quarter has so far produced very mixed results. Around 80% of companies in the USA were able to produce surprises in terms of earnings growth, compared with just under 65% in Europe. It is noticeable that the market has punished lower-than-expected results much more than it has honoured positive surprises. For example, the weak results of Alphabet in the cloud sector led to a 9% fall in the share price. Meta was also unable to fulfil market expectations, while the results of other companies such as Microsoft and Amazon were positively received by the market. In Switzerland, the figures from Novartis in particular caused a stir. Although the company exceeded the estimates of analysts in terms of both profit and turnover, this was not received particularly favourably by stock market participants.

"The reporting season is already well advanced."

Bond markets

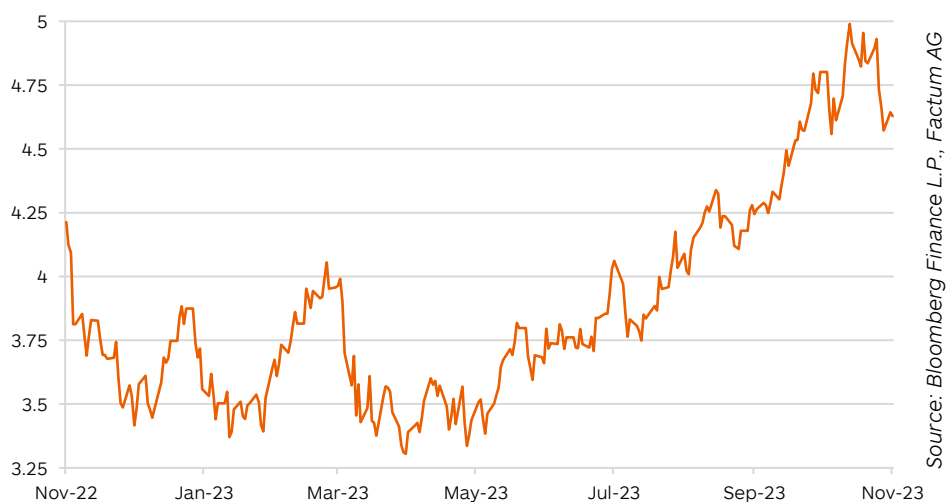
By the end of October, the storm on the bond markets had abated somewhat. After the yield on 10-year US government bonds had risen to 5% at the end of October, its highest level in 22 years, it fell back to around 4.65% at the beginning of November. The recent positive price trend is mainly due to three factors. Firstly, the US Treasury has announced a lower issue volume of US government bonds with longer maturities. Secondly, economic data has deteriorated. Sentiment in US industry (ISM Manufacturing) fell unexpectedly significantly in October. The reduction in industrial employment is an indication that manufacturers need less capacity. Thirdly, the US Fed's interest rate decision was interpreted slightly "dovish" by the financial markets. Both the statement on the interest rate decision and the press conference provided several indications for the restraint of the monetary authorities. The recent tightening of financial conditions, which could replace further interest rate hikes, was explicitly emphasised in the Fed statement and by Fed Chairman Powell.

"10-year US government bonds climbed to over 5% in the short term."

All in all, the global bond markets benefited from the development in the US. Yields in the Eurozone have also fallen. Inflation figures from the currency union had a supportive effect on bond prices. Inflation in the Eurozone has once again fallen more sharply than expected. Should economic indicators continue to weaken, inflation continue to fall and, as a result, the interest rate pause by the central banks become more and more of a certainty, the peak in yields should now also be behind us.

"There are some indications that the peak in yields is behind us."

Yield on ten-year US Treasuries in %



Commodities

Since the start of the war between Hamas and Israel, gold has gained around USD 150 and is trading in the region of USD 2,000 per troy ounce, i.e. eight per cent higher. Due to the geopolitical tensions in the Middle East, demand for safe havens has risen.

Normally, the gold price should be significantly lower considering the highest real yields in the US since 2008, the strongest US dollar in a year and continued outflows from gold ETFs. Inflation uncertainty and the gloomy economic outlook can be cited as arguments for the resilience of the gold price. The phenomenon of immense demand from China has continued to be observed on the physical market since the summer. At times, it was no longer possible to satisfy this demand, as the Chinese central bank temporarily stopped importing gold due to the support measures for the renminbi. The situation has calmed down somewhat, but a premium of two to three per cent is still being paid in Shanghai.

The Investment Committee discussed taking profits after gold lost around 5% of its value in September and rose again by around 8% in October. We decided, among other things, to hold on to the position due to the uncertain situation in the Middle East, i.e. we hold three per cent gold in a portfolio with the Balanced strategy.

"The crisis in the Middle East has given the price of gold a new boost despite the rise in US real interest rates."

"Why has gold gained in the last twelve months despite the rise in real interest rates?"

"We continue to hold 3% gold in a portfolio with the Balanced strategy."

Gold price



Source: Bloomberg Finance L.P., Factum AG

Currencies

In market phases of heightened geopolitical uncertainty, investors seek out "safe havens" such as the US currency or the Swiss franc, which hold up better in relative terms than the euro or other currencies. There are several factors that can be attributed to this. The US economy continues to be characterised by robust activity - for example, retail sales have increased. Despite the now unfavourable financing conditions for companies, capacity utilisation remains at a high level. In view of these developments, expectations of interest rate cuts by the Fed in the near future have currently fallen noticeably. This circumstance is benefiting the US dollar alongside the improved growth prospects. The US dollar is also benefiting from the increased geopolitical risk triggered by the flare-up of the Middle East conflict. There are still no signs of a marked economic recovery in the Eurozone. For the time being, the US dollar will be supported not only by its status as a safe haven, but also by better economic growth and, for example, higher key interest rates compared to Europe.

"Safe havens such as the US currency or the Swiss franc are currently in demand."

Market overview 31 October 2023

Equity indices (in local currency)	Current	1 Mt (%)	YtD (%)
SMI	10,391.16	-5.22	-0.12
SPI	13,616.23	-5.24	-0.86
Euro Stoxx 50	4,061.12	-2.62	10.45
Dow Jones	33,052.87	-1.26	1.44
S&P 500	4,193.80	-2.10	10.68
Nasdaq	12,851.24	-2.76	23.61
Nikkei 225	30,858.85	-3.14	20.55
Emerging markets	915.20	-3.88	-1.85

Commodities

Gold (USD/fine ounce)	1,983.88	7.32	8.76
WTI oil (USD/barrel)	81.02	-10.76	0.95

Bond markets (change in basis points)

US Treasury Bonds 10Y (USD)	4.93	0.36	1.06
Swiss Eidgenossen 10Y (CHF)	1.13	0.02	-0.49
German Bundesanleihen 10Y (EUR)	2.81	-0.03	0.24

Currencies

EUR/CHF	0.96	-0.50	-2.70
USD/CHF	0.91	-0.54	-1.53
EUR/USD	1.06	0.02	-1.21
GBP/CHF	1.11	-0.91	-1.09
JPY/CHF	0.60	-2.07	-14.91
JPY/USD	0.01	-1.52	-13.56

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