Investment Report

December 2024

Factum AG
Current positioning:

Portfolio balanced	Neutral	Current	Change*
Liquidity	3%	3%	→
Bonds	35%	35%	→
Shares	47%	46%	→
Alternative investments	15%	16%	→

**Changes since the last Investment Report (13 November 2024) & current assessment.*

Strategy overview

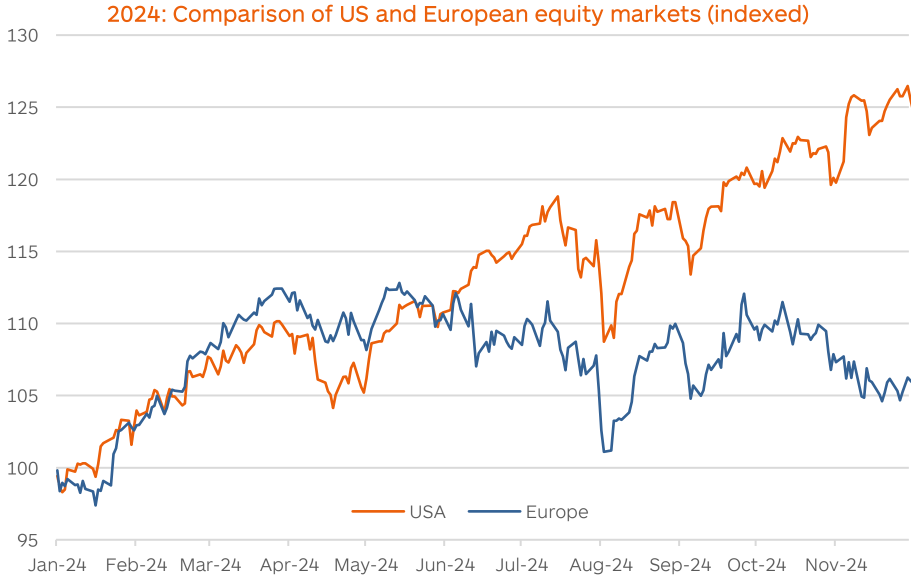
The Republicans' sweeping success – securing the presidency, as well as majorities in both the Senate and the House of Representatives – will likely lead to significant shifts, potentially including a fundamental transformation of U.S. economic policy. President Trump and his administration are undoubtedly better prepared than in 2016. A key goal is to streamline and increase the efficiency of the state apparatus. The opportunities presented by digitalization undoubtedly allow for a small revolution in this regard. Europe and the rest of the world will closely observe the U.S., aiming to draw lessons from its developments. Meanwhile, Europe, which prides itself on being a regulatory trailblazer, warrants close attention. However, significantly less government intervention and more entrepreneurial flexibility are urgently needed to emerge from its economic malaise. For instance, the EU Purchasing Managers' Index for the manufacturing sector dropped from 46 in October to 45.2 points in November. Furthermore, Germany has seen substantial layoffs in its industrial sector, with announcements from companies such as Thyssenkrupp (5,000 jobs), Ford (2,900), Schaeffler (2,800), and Bosch (3,800).

"In an environment where change is the only constant, one should avoid taking extreme positions."

FACTUM

The S&P 500 surged an impressive 5.7% over the reporting month. European markets, however, underperformed, burdened by looming higher tariffs and weak economic growth. Looking ahead to 2025, making a reliable forecast is exceedingly challenging. America remains the world's unrivaled economic engine. Yet, the new Trump administration suggests a turbulent ride ahead, likely marked by changes and surprises.In such a complex environment, we believe it is prudent to avoid extreme positions, maintaining maximum flexibility. Repeated tariff threats in the near future are likely to induce short-term volatility. Nevertheless, the fundamental outlook for U.S. equities remains favorable, supported by solid growth, monetary easing by the Federal Reserve, and structural tailwinds from artificial intelligence. However, we maintain a slight underweight in equities in favor of industrial metals, which stand to benefit in the long term from the increasing electrification of the economy.

2024: Comparison of US and European equity markets (indexed)



Source: Bloomberg Finance L.P., Factum AG

Politics

"Europe will be put to the test in the coming years."

Europe is undoubtedly facing significant challenges. In light of looming higher trade tariffs, diminished security guarantees, and uncertain sustainability commitments, Europe's global political standing is being put to the test. The appointment of protectionist Robert Lighthizer as the U.S. Trade Representative and the "America First" policy will continue to escalate the pressure. Recent analyses suggest that U.S. trade policies could reduce Europe's GDP by up to 1.5%, or EUR 260 billion, which in turn could significantly impact interest rates, the euro, and the risk of a recession. Trump's stance on NATO is well known, and the development of Europe's ambitious energy transition remains to be seen. However, similar to the U.S., a pattern of a rightward shift is also emerging across Europe. Events such as Brexit, elections in the Netherlands, Italy, France, Germany, and Austria clearly reflect this trend. Undoubtedly, the continent finds itself at a crossroads due to impending trade tensions and security policy uncertainties.

Economy

U.S. economic growth in the third quarter, at an annualized rate of 2.8%, can be considered solid and slightly exceeded market expectations. Increased consumer spending, coupled with robust investment activity from both public and private sectors, underpins the sustainable growth of the U.S. economy. On the other hand, the downward trend in inflation persisted in both the U.S. and Europe. Given the significantly weaker economic performance in the Eurozone, more pronounced interest rate cuts by the European Central Bank compared to those by the U.S. Federal Reserve would be justifiable.

"The U.S. experienced solid growth in the third quarter of 2024."

Equity Markets

In November, U.S. equities outperformed their European counterparts (including currency effects) by approximately 10%. This reflects the earnings development of the respective stock indices. Additionally, the protectionist economic policies of the incoming U.S. administration pose further headwinds, while political uncertainty in the Eurozone remains high, particularly with the upcoming elections in Germany. As a result, the outlook for a near-term improvement in the business environment for Eurozone companies appears bleak. However, there is broad consensus among investors regarding the relative assessment of the two equity markets, resulting in dampened sentiment for the Eurozone. This, combined with the extreme valuation gap, creates increased potential for surprises in the medium term. Contradictory news could initially lead to a rapid valuation convergence, but this would only be sustainable if earnings also align over time.

"Continued U.S. outperformance in equities."

Bond Markets

Several interest rate decisions are on the agenda for December. The Fed is scheduled to meet on December 18 for its second session following the election. Before that, on December 12, the SNB and the ECB will hold their meetings. In the U.S., there are clear signs of a potential slowdown in rate cuts, as seen in indicators such as the PMI indices. Against the backdrop of weak growth and low inflationary pressure, a faster pace of rate reductions in Europe is well justified. A rate cut of 0.50% would not come as a surprise, and the announcement of a path for further cuts is also conceivable. The SNB, with its low inflation forecast, has indirectly signaled a rate cut, with a reduction of 0.50% appearing realistic.

"Interest rates will continue to decline – primarily in Europe."

FACTUM

Commodities

"Gold had a weak month – but key factors continue to keep us optimistic."

In November, gold experienced its worst first week following a U.S. election since 1980, when Ronald Reagan was elected President. Due to the strong appreciation of the U.S. dollar, rising long-term interest rates, and a drop in the VIX index to its lowest level since July, the gold price declined by approximately 3.5% during the past month. Nevertheless, three key factors continue to support holding gold. First, there is the increasing demand from central banks in emerging markets. Over recent years, this demand has grown significantly as a precaution against potential U.S. sanctions (e.g., those imposed on Russia following the onset of the Ukraine war in 2022), leading these banks to diversify their currency reserves away from the U.S. dollar and into gold. Secondly, gold production remains limited, and retail investor interest in gold ETFs has risen this year. Lastly, an additional boost for gold – and commodities in general – could come if the global interest rate reduction cycle, particularly by the Federal Reserve, continues. Commodities that do not pay interest or dividends often benefit during such periods, especially if rate cuts are more substantial than the market anticipates, increasing their relative appeal.

Currencies

Bitcoin approaches the USD 100,000 mark."

End of November, the war in Ukraine reached a new level of escalation. Ukraine utilized U.S. authorization to strike military targets in Russia with U.S.-supplied missiles. In response, Russia deployed a medium-range missile for the first time and intensified its nuclear doctrine. It currently appears that both sides are positioning themselves for potential negotiations following the inauguration of the new Trump administration. The escalation of the Ukraine conflict, along with continued speculation about crypto-friendly regulation, propelled Bitcoin to a new all-time high at the end of November, reaching nearly USD 99,000, just shy of the USD 100,000 mark.

Market overview 29 November 2024

Stock indices (in local currency)	Current	1 Mt (%)	YtD (%)
SMI	11,764.20	-0.24	9.06
SPI	15,672.48	-0.25	7.56
Euro Stoxx 50	4,804.40	-0.32	9.77
Dow Jones	44,910.65	7.74	21.21
S&P 500	6,032.38	5.87	28.06
Nasdaq	19,218.17	6.30	28.88
Nikkei 225	38,208.03	-2.23	16.03
MSCI Emerging Markets	1,078.57	-3.58	8.10
Commodities			
Gold (USD/fine ounce)	2,643.15	-3.67	28.12
WTI oil (USD/barrel)	68.00	-1.82	-5.09
Bond markets			
US Treasury Bonds 10Y (USD)	4.17	-0.12	0.29
Swiss Eidgenossen 10Y (CHF)	0.25	-0.17	-0.46
German Bundesanleihen 10Y (EUR)	2.09	-0.30	0.06
Currencies			
EUR/CHF	0.93	-0.88	0.34
USD/CHF	0.88	1.96	4.71
EUR/USD	1.06	-2.82	-4.19
GBP/CHF	1.12	0.73	4.70
JPY/CHF	0.59	3.58	-1.41
JPY/USD	0.01	1.51	-5.83
XBT/USD (Bitcoin)	97,460.39	39.35	132.41

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