

Investment Report

September 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 (7 August 2024) & current assessment.

Strategy overview

"The economy and the stock market are like a man walking his dog. The man walks slowly and steadily, while the dog runs back and forth. Yet, in the long run, they both move in the same direction." Stock market and finance expert André Kostolany summed it up perfectly. For us, as an independent asset manager, this means keeping an eye on the so-called "big picture." In practice, this requires a thorough analysis of the economic situation, interest rate conditions, stock valuations, and geopolitical developments. Moreover, the psychological component plays a significant role. Specifically, herd mentality and the tendency to be overly influenced by market sentiment should be highlighted.

As mentioned in our previous investment report, we took advantage of the significant market turbulence in early August and rebalanced our equity allocation. In a balanced mandate, this meant adjusting the equity allocation back to the original quota of 45%. Overall, we remain slightly underweight in equities.

"The economy is like a man walking his dog."

"Rebalancing our equity allocation in early August."

The emerging recession fears in the U.S. were pushed aside by unexpectedly low initial jobless claims. The renewed decline in inflation in the U.S. was interpreted as removing any obstacles to a rate cut by the Federal Reserve in September. Fed Chair Jerome Powell expressed the same view during his speech at the annual central bankers' meeting in Jackson Hole. All in all, the stock markets have recovered impressively, with the S&P 500 in the U.S. nearing its all-time high as of August 30, 2024. Historically, the first rate cut by the Federal Reserve has been a signal to watch closely. During times of solid economic growth, the S&P 500 Index has gained an average of 17% in the year following the Fed's initial easing.

“The stock indices recovered the book losses incurred in August in a classic V-shaped movement.”

S&P 500 Index over one year



In the short term, the slight increase in the equity allocation after the turbulence in early August has had a positive impact on the performance of our managed mandates. For us, it is essential to maintain a focus on the "big picture." From a holistic perspective, we believe the global economic environment is stable enough—barring any external shocks—to maintain the current course.

“We remain moderately positive on the investment markets.”

Politics

At the beginning of August, Kamala Harris announced that the potential U.S. Vice President would be Minnesota Governor Tim Walz. The selection of Walz was rather surprising. The general public had expected the choice to fall on Josh Shapiro, Governor of Pennsylvania—a "swing state"—or Mark Kelly, Senator from Arkansas. Politically, Walz is positioned more to the left, similar to Harris herself. Shapiro apparently failed to gain majority support due to his strong pro-Israel stance and his advocacy for school choice. Minnesota,

“Kamala Harris nominates Tim Walz as her potential vice president.”

where Walz currently serves as governor, is also not considered a "swing state." In roughly two months, on November 5, 2024, the U.S. presidential elections will take place.

Economy

Following the turbulence in early August, financial markets have returned to a positive mood. As quickly as the volatility indices spiked, they also subsided. Contributing to this calm were statements from the Bank of Japan that further interest rate hikes were off the table amid high market volatility. Additionally, U.S. economic data suggested that the surprisingly weak labor market report was likely due to weather-related, and therefore temporary, factors. Initial jobless claims have significantly declined in recent weeks. Furthermore, July retail sales indicated that consumer spending remains robust. Alongside positive economic data, the easing of inflationary pressures in the U.S. contributed to an improved market sentiment. Overall, the data points to an orderly slowdown in the U.S. economy.

"Overall, a gradual slowdown of the U.S. economy can be observed."

Equity markets

Global equity markets have experienced extreme volatility in recent weeks. Several factors have led to significant market disruptions, as detailed in our last investment report (e.g., the unwinding of the JPY carry trade, disappointing corporate earnings in the tech sector, low trading volumes during the summer months, and weaker economic data). Additionally, the geopolitical environment remains challenging and unpredictable. This is precisely why a broad portfolio needs to include other asset classes such as commodities, gold, or bonds for diversification. Our quantitative indicators for fundamentals, valuation, technical analysis, and sentiment currently register in neutral territory. Since part of our risk budget is allocated to industrial metals, emerging market equities remain underweight, which ultimately leads us to maintain a slight underweight position in equities overall.

"Once again, it is important to highlight the significance of being broadly diversified across various asset classes."

Bond markets

A key question is how to interpret the market correction in early August. Undoubtedly, the rising expectations of Federal Reserve rate cuts are worth noting. Futures markets are currently pricing in four rate cuts by year-end. In this regard, Fed Chair Jerome Powell further fueled hopes during his speech in Jackson Hole at the end of August. He emphasized that the Fed is observing a cooling in the labor market and seeks to prevent a sharp decline. His remarks were seen as a signal to the market that a rate cut will likely be announced at the Fed meeting on September 18.

"Jerome Powell appears dovish."

Commodities

Due to the weakening U.S. dollar and declining U.S. real interest rates, gold traded at around USD 2,525 per ounce at the end of August, reaching a new all-time high. Continued geopolitical uncertainties in the Middle East also supported the price rally. The onset of the rate-cutting cycle in the U.S., which lowers the opportunity cost of holding gold, suggests further upside potential. Moreover, central bank demand for gold remains a structural support for its price.

“At the end of August, the gold price reached a record high of USD 2,525 per ounce.”

Gold 2019 - 2024



Currencies

The U.S. dollar lost ground in August, following market turbulence earlier in the month, which was partially triggered by concerns over the U.S. economy. Bond and interest rate markets responded to a higher-than-expected U.S. unemployment rate by pricing in more rate cuts by the Fed, putting pressure on the dollar. The U.S. dollar also weakened against the Swiss franc as the interest rate differential narrowed. If the Fed fails to meet market expectations for significant rate cuts, the U.S. dollar is likely to strengthen. This is likely to be more significant against the euro than against the Swiss franc, as the latter is often seen as a "safe haven" in times of geopolitical uncertainty.

“The U.S. dollar lost ground in August.”

Market overview 30 August 2024

Stock indices (in local currency)	Current	1 Mt (%)	YtD (%)
SMI	12,436.59	0.97	15.14
SPI	16,504.15	0.90	13.27
Euro Stoxx 50	4,957.98	1.80	12.83
Dow Jones	41,563.08	2.03	11.75
S&P 500	5,648.40	2.43	19.52
Nasdaq	17,713.63	0.74	18.58
Nikkei 225	38,647.75	-1.09	16.57
MSCI Emerging Countries	1,099.92	1.64	9.80

Commodities

Gold (USD/fine ounce)	2,503.39	2.28	21.35
WTI oil (USD/barrel)	73.55	-5.60	2.65

Bond markets

US Treasury Bonds 10Y (USD)	3.90	-0.13	0.02
Swiss Eidgenossen 10Y (CHF)	0.48	0.03	-0.23
German Bundesanleihen 10Y (EUR)	2.30	0.00	0.28

Currencies

EUR/CHF	0.94	-1.22	1.09
USD/CHF	0.85	-3.23	0.97
EUR/USD	1.10	2.05	0.08
GBP/CHF	1.12	-1.15	4.12
JPY/CHF	0.58	-0.68	-2.56
JPY/USD	0.01	2.61	-3.51

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Editorial deadline: 5 September 2024

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