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FACTUM

Investment Report

April 2025

Factum AG
Current positioning:

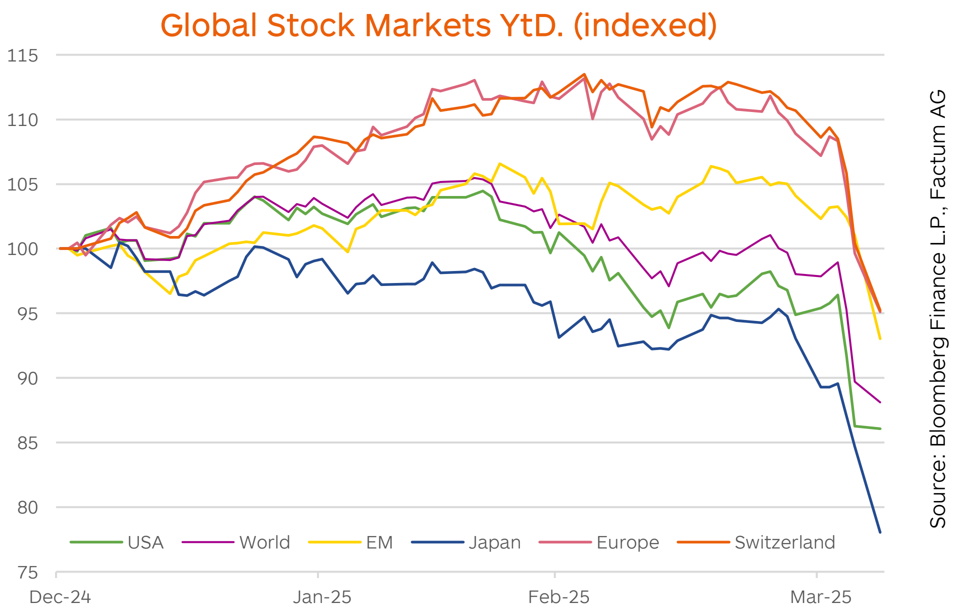
Portfolio balanced	Neutral	Current	Change*
Liquidity	3%	3%	→
Bonds	35%	35%	→
Shares	47%	47%	→
Alternative investments	15%	15%	→

*Changes since the last Investment Report (12 March 2025) & current assessment.

Strategy overview

Joy and sorrow often go hand in hand on the financial markets. As recently as mid-February 2025, US equity markets and several European indices were still recording all-time highs. Barely six weeks later, panic has taken hold. It feels like a flashback to the investment year 2020, when the COVID-19 crisis gripped the markets, or to 2022, when balanced portfolios denominated in Swiss francs lost around 15% in value. The announcement of reciprocal tariffs on US imports on so-called "Liberation Day" April 2, 2025 sent equity markets into a downward spiral, reminiscent of a tornado sweeping through the American Midwest or Tornado Alley. Within just two trading sessions, global equities plummeted by more than 10%, marking one of the steepest two-day declines in the past 50 years.

«The tariff hammer hit equity markets with full force.»



The primary driver behind the market turmoil was fear of a severe global economic slowdown and a renewed upward pressure on inflation an issue that had only recently been brought under control in previous quarters. The spectre of stagflation (a stagnating economy combined with rising inflation) began to circulate widely. One of the first signs that the sell-off may be nearing its climax was the indiscriminate liquidation of virtually all risk assets, including traditionally defensive segments such as gold, defense stocks, and utilitie. The biggest losers were sectors most exposed to the newly imposed tariffs, particularly Consumer Discretionary and Technology, both of which had long benefited from low-cost imports, especially from Asia. Cyclical sectors such as Energy and Financials also came under heavy pressure. In contrast, relatively resilient performance was seen in defensive sectors such as Consumer Staples Real Estate, and Pharmaceuticals.

«How did individual sectors perform?»

Übersicht der am "Liberation Day" beschlossenen Zölle

Region	Handels-bilanzdefizit	Exporte	Importe	Anteil Importe (%)	Importzoll
EU	-235.6	370.2	605.8	18.4%	20%
Mexiko	-171.8	334.0	505.9	15.3%	25%
China	-295.4	143.5	438.9	13.3%	54%
Kanada	-63.3	349.4	412.7	12.5%	25%
Japan	-68.5	79.7	148.2	4.5%	24%
Vietnam	-123.5	13.1	136.6	4.1%	46%
Südkorea	-66.0	65.5	131.5	4.0%	25%
Taiwan	-73.9	42.3	116.3	3.5%	32%
Indien	-45.7	41.8	87.4	2.7%	26%
Schweiz	-38.5	25.0	63.4	1.9%	31%
Total	-1'211.7	2'083.8	3'295.6	100.0%	

Source: U.S. Census Bureau, 03.04.2025

Angaben in USD Mrd., Importzölle inkl. der bereits von der Trump-Regierung vorgängig beschlossenen Einfuhrzölle, aber ohne Berücksichtigung von allfälligen Ausnahmen.

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Unlike in 2022, when both bond and equity markets came under pressure simultaneously, fixed income and gold were able to cushion recent equity market losses to some extent. This once again underscores the importance of diversification across asset classes and regions within a portfolio context.

«The benefits of diversification are becoming evident.»

Long-term oriented investors should always keep the lessons of market history in mind to avoid losing sight of their investment objectives. Whether a market correction lasts a few weeks, several months, or even two to three years — the rebound has always come. An analysis of the twelve instances over the past 80 years in which the S&P 500 declined by 20% or more from its peak provides compelling evidence of this principle.

«Keep cool and stay invested.»

Investment horizon	Subsequent positive returns in all cases	Average return
1 year	67%	12.90%
3 years	91%	29.20%
5 years	100%	52.70%

Source: UBS House View – CIO Alert

At present, our portfolios are positioned with a neutral weighting, meaning we have not taken any active tactical overweights relative to the strategic asset allocation. Although the temptation is there, we are refraining from increasing overall portfolio risk for the time being, given the continued presence of macroeconomic uncertainties. In our view, market volatility is likely to persist over the coming weeks. A potential rebalancing to the original allocation targets will be executed once the dust has settled and greater clarity on the economic outlook emerges.

«We are currently neutrally weighted – a rebalancing will be carried out in due course.»

At the end of March, we lifted our underweight in domestic bonds (for CHF, EUR, and GBP mandates) in favor of a reduced allocation to global fixed income. While USD yields have declined in recent weeks due to weakening economic momentum in the US, yields in Europe and by extension, in Switzerland have moved higher. The driver behind this move was the abrupt reversal in Germany's fiscal policy stance following the CDU/CSU election victory. Given that a significant portion of the running yield in global bonds is eroded when hedging into the reference currency, we took advantage of the divergent interest rate movements to adjust our positioning. As a result, the domestic bond allocation (for CHF, EUR, and GBP mandates) has been brought back to a neutral weighting, as has the allocation to global fixed income, in line with our strategic asset allocation.

«What portfolio changes were implemented during the past month?»

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Politics

«Fiscal U-turn in Germany.»

Designated Chancellor Friedrich Merz delivered a political bombshell: The debt brake is set to be amended in a way that allows infrastructure investments totaling EUR 500 billion as well as a portion of defense spending to be financed outside the constitutional borrowing limit. Should this newly created fiscal leeway be fully utilized, Germany's debt-to-GDP ratio could rise significantly. At the same time, increased public investment offers the opportunity to deliver much-needed economic stimulus and to sustainably enhance the competitiveness of Germany as a business location.

«Disruptus Maximus.»

It seems that US President Donald Trump is indifferent to the disruptions caused by the ongoing trade war. In his address to Congress, he referred to it merely as a "small disturbance," and in an interview with Fox News, he even suggested that a recession could not be ruled out. According to Trump, all of this is necessary to "Make America Great Again." Unlike during his first term, he is no longer alone in this view. He has surrounded himself with economists who share his perspective. Trump appears to be following a master plan to solidify the United States' position as the world's dominant superpower. This strategy extends beyond tariffs and includes the US dollar, debt reduction, and geopolitics, with the US dollar at the heart of it all. From Trump's perspective, the US dollar is currently too strong. He believes this is detrimental to the US economy and aims to depreciate the currency. Such a move would reduce the cost of American exports, lower interest expenses for the US, and promote investment in the country's reindustrialization. At the same time, the US dollar would retain its status as the global reserve currency.

«What conclusions can we draw from US policy?»

In our view, there is a risk that tariffs could continue to rise in the early stages if the trade conflict escalates further. However, mounting pressure from businesses, the political sphere, and possibly even the courts could eventually push the Trump administration to reach agreements with individual countries or sectors. This is likely to occur by mid-year, or potentially in the third quarter. Additionally, we expect the Federal Reserve to intervene with interest rate cuts should the economic pain persist, in an effort to support growth.

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Economy

In recent months, economic policy has already begun to show signs of strain. Alongside consumer confidence, indicators from the services sector have also suffered setbacks. Should President Trump persist with his restrictive economic policies — such as tariffs and a wave of public sector layoffs — a downward spiral could emerge. The resulting weakness in consumption would likely have a negative impact on the labor market. What appeared to be a strong US economic policy at the end of 2024 could suddenly find itself in a downturn.

«Recession risks have increased in the United States.»

In contrast, the economic outlook in Europe and Asia appears more favorable. Moreover, the potential for positive surprises cannot be ignored. The Trump administration has kept the door open for negotiations on tariff rates, and currently, over 70 countries are seeking talks. If, for example, an agreement were to emerge between the US and Europe, it could provide a significant boost to risk assets. Given this context, a neutral positioning in equity markets currently seems to be the most prudent strategy, although the next few weeks are likely to be characterized by high uncertainty and considerable market fluctuations.

«The potential for positive surprises regarding tariff negotiations cannot be overlooked.»

Equity Markets

In the United States, the S&P 500 reached a new all-time high in January. Large-cap stocks, particularly those in the Technology and AI sectors, were the primary drivers behind the rally, supported by strong corporate earnings for Q4 2024. Although the Federal Reserve signaled a wait-and-see approach, the expectation of potential rate cuts later in the year remained a positive market catalyst. The mood shifted dramatically, however, following the surprise announcement of comprehensive import tariffs by the US government on April 2 — the so-called "Liberation Day." As a result, US equities came under significant pressure: The S&P 500 lost over 12% in just two trading days and entered a technical bear market. The Dow Jones and Nasdaq also experienced substantial losses.

«USA: From an All-Time High to a Sharp Decline.»

European equity markets, in contrast, showed rare relative strength in the first quarter. Both the Eurostoxx 50 and the DAX benefited from favorable valuations, a solid earnings season, and the tailwind of a weaker euro. Despite global uncertainties, European indices remained stable through the end of March and even outperformed their US counterparts, as highlighted in our previous investment commentary. Following the downturn in the US markets, European stocks did retreat, but the declines were notably less pronounced.

«From a relative perspective, Europe has outperformed the United States.»

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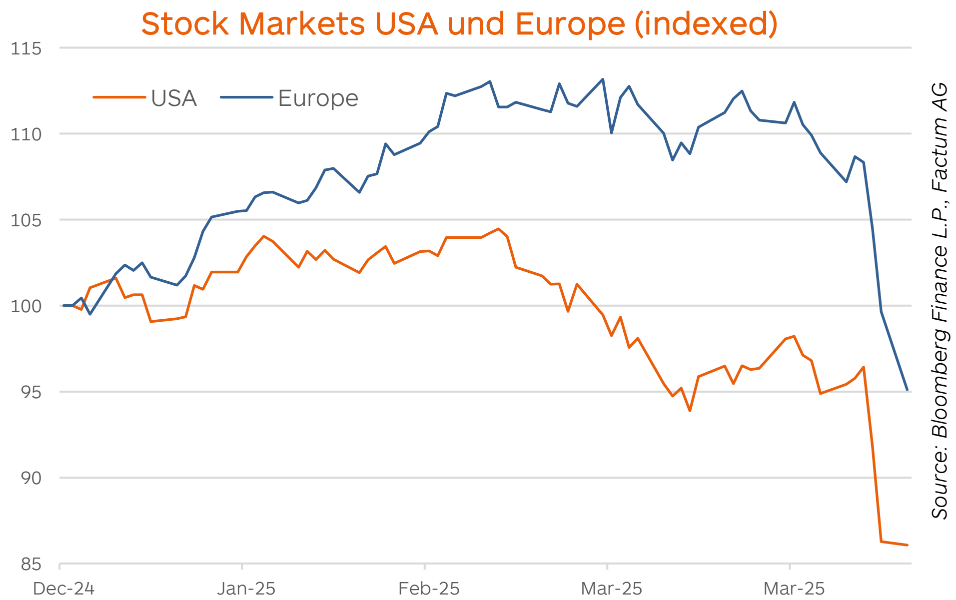


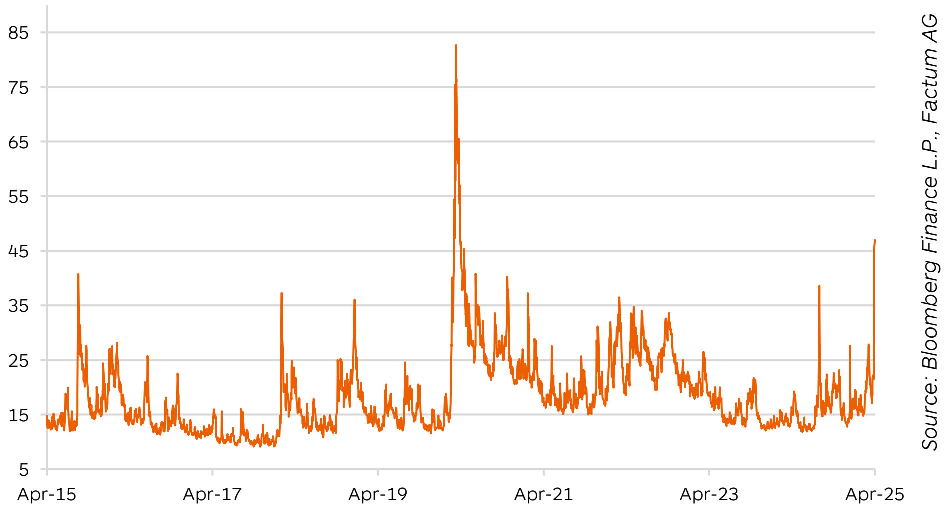
Emerging markets benefitted from a more favorable global environment at the beginning of the year, supported by stabilized commodity prices and a slight weakening of the US dollar. Certain markets — particularly in Latin America — posted solid performances, while others (such as in Eastern Europe or Southeast Asia) remained under pressure due to geopolitical risks.

«Emerging markets benefitted from a more favorable environment at the beginning of the year.»

In early April 2025, the announcement of reciprocal US import tariffs triggered an abrupt market downturn across global equity markets. In particular, US exchanges experienced panic selling, with the S&P 500 losing more than 12% in just a few trading days. At the same time, the VIX, which serves as a gauge for expected market volatility, surged from below 15 to over 40 points within 48 hours — the highest level since the coronavirus crisis in March 2020. During intraday trading, the VIX briefly spiked above 60 in August 2024 due to the unwinding of the JPY carry trade. This sharp rise in the VIX underscores the scale of uncertainty and the sudden return of risk premiums, following a first quarter characterized by record-low volatility. Despite these developments, we believe it is important to remain calm and thoroughly assess the situation, which is why we have maintained a neutral positioning in our portfolios.

«Volatility has returned with full force.»

CBOE-Volatility Index on S&P 500



Bond Markets

The first quarter was characterized by declining inflation rates, moderately weaker economic data, and growing hopes for further interest rate cuts. Overall, the first quarter was stable to slightly positive. The tone from central banks remained generally cautious and dovish, which confirmed market participants' expectations that the peak in interest rates had been reached. In the United States, the yield on 10-year Treasuries was around 4% at the end of March, and then rose to approximately 4.20% within a few days. The US Federal Reserve maintained its data-dependent communication, but increasingly emphasized the potential for easing in the second half of the year. Corporate bonds, particularly investment-grade, benefited from a constructive market environment and tighter spreads. In the Eurozone, the yield on 10-year Bunds currently stands at around 2.60%. Here too, expectations of an imminent rate cut were reflected in more stable prices and declining money market rates. Peripheral bonds traded steadily until recently, indicating an overall strong risk appetite.

«Overall, the first quarter was stable to slightly positive.»

However, a sharp break occurred in the first week of April. The introduction of reciprocal trade tariffs by the US government on April 2 triggered panic selling in the equity markets and sparked a classic flight to quality in the bond market. The yields on safe government bonds dropped significantly: the 10-year US Treasuries fell by about 30 basis points within a few days, and the yields on German Bunds also declined notably. At the same time, credit spreads widened visibly, particularly in the high-yield segment and emerging market debt.

«April 2nd triggered a flight to quality.»

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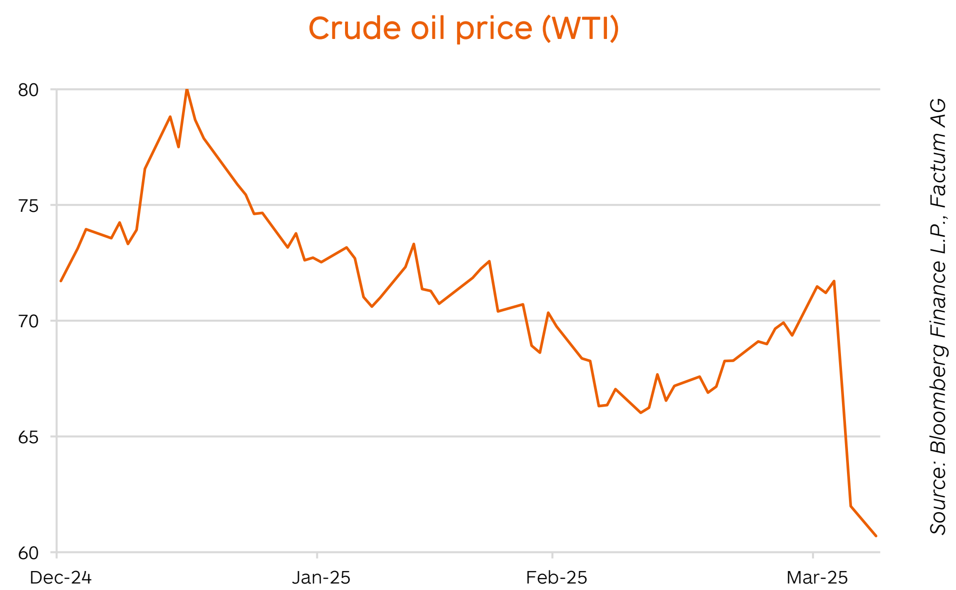
Commodities

Gold surged strongly this year as well, reaching a peak of around 19% and trading at a new all-time high of USD 3,134 per ounce in early April. However, due to the trade conflict, gold also experienced some pullback and is currently up around 14%. Despite the recent losses, demand for gold remains robust amid ongoing uncertainty. After gold ETFs reduced their holdings in 2021 and 2023, the selling pressure eased last year, largely due to purchases in Asia. The weakening of the dollar and declining US real yields, combined with the unpredictable US political landscape, have led to strong inflows into ETFs in North America this year, resulting in a rise in their holdings.

«Gold reached a new all-time high in early April, trading at USD 3,134 per ounce.»

The price of oil (WTI) has fallen by around 15% since the beginning of the year, but has at least temporarily rebounded following the tightening of sanctions against Iran. However, President Trump and Treasury Secretary Bessent seem to be betting on cheap oil. The overall picture, despite the sanctions on Tehran, points to low oil prices, a trend that has been further amplified by the trade conflict, which has significantly dampened demand for black gold. OPEC+ may increase production following a call from Trump, as the oil cartel can expand its market share by maintaining low production costs.

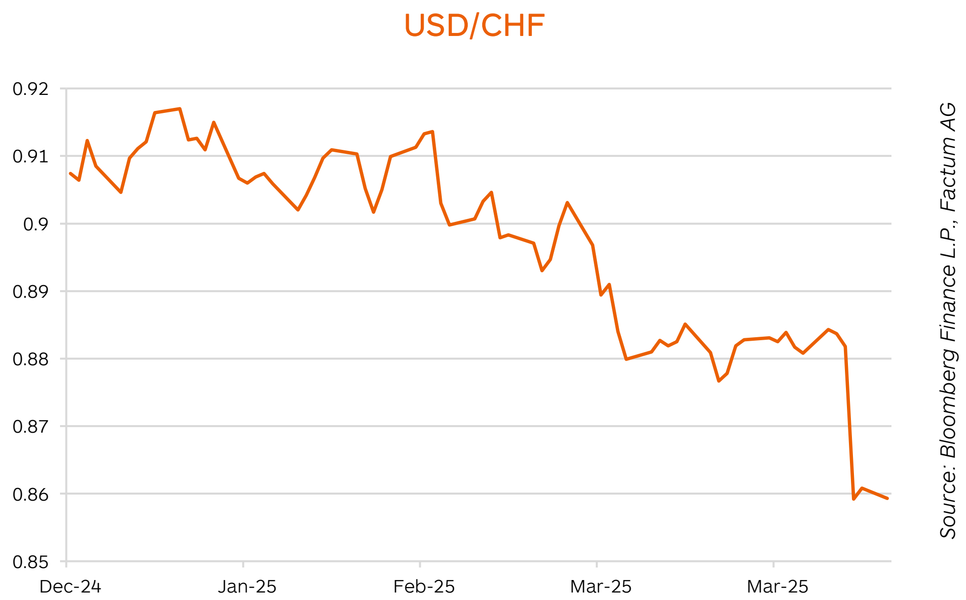
«The oil price recovery was only temporary.»



Currencies

The US currency also experienced a rough day following the announcement of import tariffs, correcting against nearly all currencies. The losses were most pronounced against safe-haven currencies like the Swiss franc and the Japanese yen. The euro also continued to gain. While the new tariffs are expected to weigh on the economy in the Eurozone, they have simultaneously raised hopes for increased inflows into the single currency. For a long time, it could be assumed that a trade dispute initiated by the US would ultimately support the dollar: first, because growth prospects are weakening elsewhere in the world. Second, because the Fed's room for rate cuts is limited due to the inflationary effect. Third, because demand for the dollar usually rises due to its status as a safe-haven asset. However, the erratic policy and the massive, comprehensive, and rapid increase in tariffs has led to greater uncertainty within the US itself, calling into question the relationship between the US dollar and tariffs. As a result, the prevailing conviction on the forex market has recently shifted, with the expectation that the economic consequences for the US could be more severe. Furthermore, there is currently a preference within US government circles for a weaker dollar, with plans to actively weaken the dollar through a multilateral agreement ("Mar-a-Lago Agreement") or unilateral measures, such as the introduction of a usage fee on US Treasury bonds. However, this also carries the risk of an accelerated shift away from the US currency in general.

«The US government is undermining the strength of the dollar.»



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Market overview 7 April 2025

Stock indices (in local currency)	Current	28/2 – 7/4 (%)	YtD (%)
SMI	11,047.48	-13.96	-3.55
SPI	14,786.43	-13.78	-4.43
Euro Stoxx 50	4,656.41	-14.65	-4.47
Dow Jones	37,965.60	-13.24	-10.36
S&P 500	5,062.25	-14.85	-13.63
Nasdaq	15,603.26	-17.13	-19.05
Nikkei 225	31,136.58	-15.53	-21.28
MSCI Emerging Markets	1,001.49	-8.41	-6.29
Commodities			
Gold (USD/fine ounce)	2,983.28	4.39	13.67
WTI oil (USD/barrel)	60.70	-12.99	-15.37
Bond markets			
US Treasury Bonds 10Y (USD)	4.18	-0.02	-0.39
Swiss Eidgenossen 10Y (CHF)	0.44	-0.02	0.12
German Bundesanleihen 10Y (EUR)	2.61	0.21	0.25
Currencies			
EUR/CHF	0.94	0.10	-0.22
USD/CHF	0.86	-4.85	-5.30
EUR/USD	1.09	5.18	5.39
GBP/CHF	1.09	-3.67	-3.64
JPY/CHF	0.58	-3.00	0.92
JPY/USD	0.01	1.88	6.34
XBT/USD (Bitcoin)	78,923.14	-6.28	-15.78

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