

Investment Report

January 2024

Factum AG

Current positioning:

Portfolio balanced	Neutral	Current	Change*
Liquidity	3%	4%	→
Bonds	35%	35%	→
Shares	47%	44%	→
Alternative investments	15%	17%	→

**Changes since the last Investment Report (6 December 2023) & current assessment.*

Strategy overview

After the disastrous investment year of 2022, in which global equities and bond markets suffered double-digit losses, 2023 brought the recovery we had hoped for. However, it was anything but smooth sailing and, as so often, resembled more a rollercoaster ride. After a brilliant start to the year, investors were brought back down to earth in March 2023. Credit Suisse had to be taken over by UBS in record time and fears of a global banking crisis had a negative impact on the international investment markets. Thanks to the co-ordinated intervention of the central banks, the markets then reached a new high for the year in May. Markets then gradually declined and the mix of higher interest rates, a stronger oil price and the Hamas attack on Israel led to a new low in October. This was followed by a sudden but violent counter-movement. The broad-based recovery was largely driven by the hope that interest rates had peaked and that global central banks might even announce interest rate cuts in the first half of the year as a result of receding inflation. In addition, the fears of a possible recession have receded into the background but have by no means disappeared completely.

"Recovery across the board".

World Equity Index



Source: Bloomberg Finance L.P., Factum AG

Global equities gained around 16 per cent between the end of October and the end of 2023. Investors around the world are banking on a perfect scenario, namely several interest rate cuts in the current investment year and that a sharp economic slowdown may possibly be avoided. In our view, 2024 is likely to be a balancing act. Market prices have risen significantly due to the fact that almost everything in the last two months of the 2023 investment year has gone in favour of market participants. We currently consider the potential drop to be something that should not be underestimated. In view of this, the assumption of falling key interest rates can and should also be interpreted as a warning. The lowering of key interest rates rarely indicates a better economic environment. As a result, the question should not be how much interest rates could potentially be cut, but rather what will trigger such interest rate cuts. This is why we believe that a certain degree of caution is required, also in view of the fact that the markets made massive gains in the last two months of the past investment year.

"Currently, several interest rate cuts and the absence of a recession in the USA are to be expected."

We are currently overweighted in liquidity. From a yield perspective, money market investments have once again become an alternative, which is particularly evident in the US dollar. However, we believe that an allocation only makes sense to protect the capital base or to take advantage of potential investment opportunities. Yields on first-class government bonds have recently fallen sharply. We currently have a neutral weighting in bonds. To achieve an acceptable return, we invest, among other things, in a mix of government bonds and also use funds with active duration management. We are currently neutrally weighted in inflation-protected bonds and emerging market bonds. We focus on hard currency bonds for the latter. The restrictive

"Our current positioning."

monetary policy of the central banks has significantly clouded the outlook of the global economy. Despite all this, the development of corporate profits has been relatively robust so far. For the time being, we are keeping the equity allocation minimally underweighted. For diversification reasons, we continue to regard hedge funds as a sensible addition to the portfolio. We have also invested part of the alternative quota in global real estate stocks with attractive yields. We are holding on to our gold position as a diversifier.

At its meeting on 6 December 2023, the Strategy Committee of Factum AG Vermögensverwaltung decided on the following changes: Within the equity allocation, there will be a switch to a "regional approach"; home market, Europe, USA currency-hedged and unhedged, Japan currency-hedged and emerging markets. We have also reduced the "home bias". In future, splitting up the global equities enables us to overweight or underweight the equity allocation of individual regions, depending on our assessment and based on our investment process. The most important component for a sustainably successful portfolio will be the ability to adapt in an agile way to changing market conditions. The 2024 investment year also offers potential for interesting investments. As usual, we will do everything we can to recognise opportunities as they arise in an undoubtedly challenging market environment and implement them in our managed asset management mandates. Despite various uncertainties, including those of a geopolitical nature, we remain cautiously optimistic, with the long-term investment objective of our clients always at the centre of our thoughts and actions.

Politics

In Taiwan, the office of the President remains in the hands of the DPP, which is in favour of independence from China. Taiwan has thus opted for the status quo, particularly with regard to its relationship with its powerful neighbour China, which, however, is unlikely to please the latter. The message from Beijing was that nothing would change in the inevitable reunification.

At the first Republican caucus (party meeting) in Iowa, former President Donald Trump won a clear victory in mid-January and clearly distanced himself from his rivals in the race for the White House. The governor of Florida, Ron DeSantis, came in second and the former US ambassador to the United Nations, Nikki Haley, came in third. According to the results, Trump won around 51 per cent of the vote, while DeSantis received around 21 per cent and Haley around 19 per cent. The second preliminary election, in this case the primaries, will take place on 23 January in New Hampshire. The series of preliminary elections reaches its climax on 5 March, the so-called "Super Tuesday",

"Changes taken by the Strategy Committee."

"Taiwan elects China critic as president".

"The Republican caucus started in Iowa with a clear victory for Trump."

when votes will be cast simultaneously in around 15 states, including California and Texas, the two US states with the largest population. If Trump clearly wins on "Super Tuesday" and the Supreme Court does not get in the way, he is most likely to be the Republican presidential candidate. Voting will continue until the beginning of June in those of the 50 US states remaining. The Republican pre-election process will be concluded at the party convention from 15 to 18 July, where the candidate will be formally nominated. The election as such of the next US President traditionally takes place on 5 November.

Economy

So far, the economic slowdown has taken place in the eurozone and China, but has not materialised in the US - at least not yet. This has been driven by the US government's cash cheques sent out during the coronavirus crisis, which supported consumption, as well as deficit spending. In addition, US unemployment is at a historically low level. The question now, of course, is how long these special factors will last. It can be assumed that the US economy will weaken over the course of the year. The Swiss economy is holding up much better than the eurozone and is benefiting from the lowest inflation of all industrialised countries.

"Strong US consumption keeps the global economy alive."

The US inflation report for December did not offer any major surprises. While the monthly rise in headline inflation was slightly above expectations, the rise in the more important core rate was in line with consensus. The development of car prices and rental costs will continue to drive the trend towards disinflation in the coming months and ensure that the inflation rate falls. At the end of the week, producer prices, as an upstream indicator, also turned out to be lower than expected. One determining conclusion is likely to be that the Fed has ended the cycle of interest rate hikes, which has also been welcomed by interest rate-sensitive equity segments. Technology stocks both in the US and globally are likely to benefit from this. However, market participants will now turn their attention to the reporting season. The annual rate of change in the earnings estimates of analysts is just under 3% for US equities in the past quarter. As a result, there is a good chance that expectations will be exceeded if the economy remains stable.

"The US inflation report for December contains no major surprises."

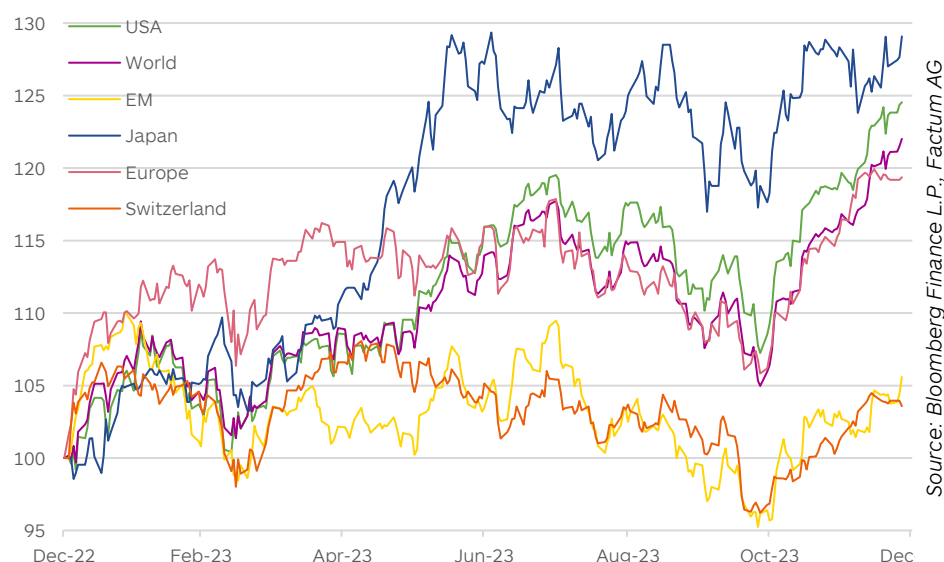
Equity markets

Most stock markets performed magnificently in the past 2023 investment year. For example, the leading US index, the S&P 500, gained around 15% in value between the end of October and the end of December, while the Dax even rose to a record high in Germany. The most cogent reasons for this are

"In the past year, global equities gained 24.50% in terms of US dollars."

the significant fall in inflation rates and the hope of interest rate cuts by the leading central banks. The global stock market, as measured by the MSCI World index, gained 24.50% in value at total return level last year. Investors who had heavily invested in Switzerland had less reason to be happy. The Swiss Market Index (SMI) recorded a gain of around 7%, while barometers such as the S&P 500, Euro-Stoxx 50 and Dax rose by more than 20%. The technology-heavy US index Nasdaq Composite even achieved a gain of more than 40%.

Global Equity Markets YtD. (indexed)



The question that now rightly arises is why the Swiss equity market has performed less well than other equity markets. On the one hand, we certainly have to mention the strong Swiss franc. The franc gained around 9% against the US dollar and 6% against the euro. On the other hand, Switzerland is strongly represented in the healthcare and consumer staples sectors, which were among the weakest globally. For example, participation certificates from Roche performed particularly weakly, falling by 13%. The food manufacturer and index heavyweight Nestlé also lost around 7% in value. In addition, the strong performance of the three sectors information technology, communication services and cyclical consumer goods is also responsible for the fact that the Swiss equity market is lagging behind. These sectors are underweighted in Switzerland compared to the USA and also seen globally. The so-called "magnificent seven", namely Meta, Amazon, Apple, Tesla, Nvidia, Microsoft and Alphabet, benefited from the growing influence of digitalisation and artificial intelligence.

"Why did the Swiss stock market lag behind?"

However, we believe it would be wrong to write off the Swiss equity market due to last year's modest performance. Switzerland has strong defensive companies with high quality. In addition, compared to the rest of the world, the valuation is within reason and making a judgement based on a one-year observation period would be anything but professional. Seen in the long term – over the last 100 years or so – Swiss equities have generated an average annual return of around 5.5%, after inflation has been deducted. This represents a respectable return when viewed in the long term. True to the motto: don't put all your eggs in one basket, i.e. diversify, it is advisable to spread equity exposure across countries and regions. It is true that Swiss companies are global corporations that do not only perform local business. Nevertheless, you need, for example, to be committed in the USA to gain access to the technology sector. Simply investing in Switzerland represents a cluster risk that should not be neglected. From the perspective of a customer with the Swiss franc as the reference currency, we take this into account by currently investing in equities as follows: 30% Switzerland, 10% Europe, 45% USA, 5% Japan and 10% emerging markets.

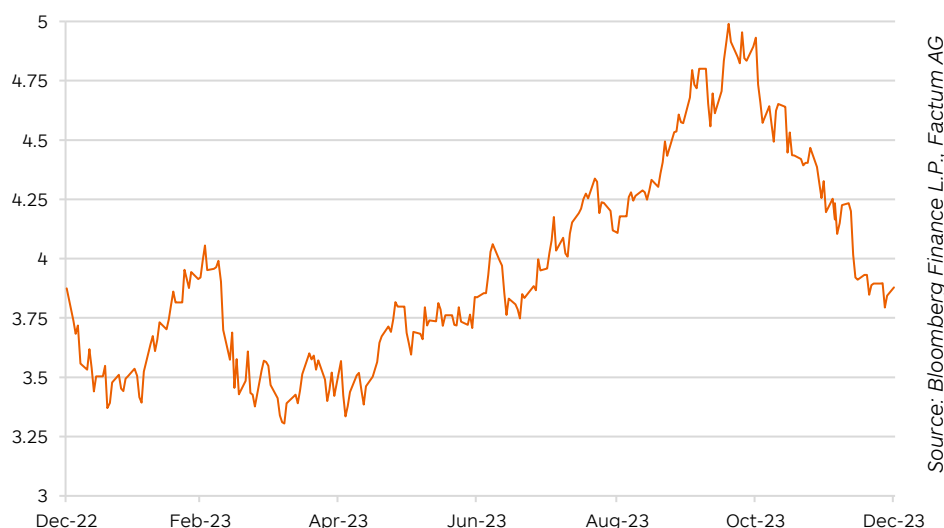
"It is advisable not to put all your eggs in one basket."

Bond markets

Towards the end of last year, bonds benefited greatly from the easing on the inflation front. In the United States, for example, the 10-year US Treasury fell from 5% in October to 3.88% at the end of 2023 and the price rose. In mid-December, the Fed lay low as expected and left the key interest rate range at 5.25% to 5.50%, the highest level in 22 years. Fed Chairman Powell no longer speaks of a strong economy, but that it has weakened. Inflation is still described as high, although there are signs that it is easing. In the coming year, the money futures markets are currently pricing in 7 interest rate cuts in the USA of 25 basis points each. According to the futures market, the probability of an interest rate cut in March is currently around 70%. The key insight for investors is likely to be that the Fed has ended the cycle of interest rate hikes.

"Bond rally towards the end of 2023."

Yield on ten-year US Treasuries in %



Source: Bloomberg Finance L.P., Factum AG

In our view, economic headwinds can be expected in the current investment year. It remains to be seen whether this will result in a global recession. Bonds, especially government bonds, should perform well in such an environment. The earnings estimates of the analysts could be dampened and, as a result, the stock markets may find themselves in stormier waters.

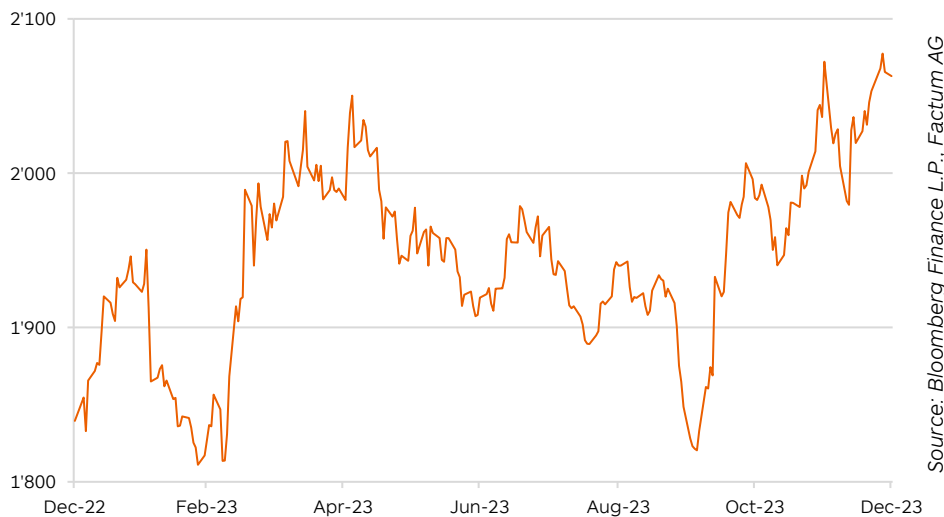
"2024 should be a good year for bonds."

Commodities

At times, the price of gold reached a new record high of USD 2,135 at the beginning of December last year. This surpassed the previous high of USD 2,075 per troy ounce set in 2020. The reason for this further increase in price was the expectation that the Fed will no longer raise interest rates and that interest rate cuts can be expected in the current year. The recent weakening of the US currency also provided support for the gold price, as this makes buying the precious metal more attractive for international purchasers. Investors who are banking on a further rise in the precious metal have positive arguments on their side. Consumption in the US is declining slightly and the somewhat overheated US labour market has started to cool somewhat. As a result, there is currently some evidence in favour of an imminent easing of monetary policy and falling interest rates. We currently hold a neutral gold allocation - which corresponds to 3% in a mixed portfolio - and consider the position to be an important component in the portfolio context. In the past investment year, the precious metal gained around 13% in value in US dollars.

"In the past year, gold advanced by around 13% in terms of US dollars."

Gold price



Currencies

The EUR/CHF currency pair experienced a massive upheaval last year, with the euro depreciating by around 6 per cent against the franc. Only CHF 0.927 was being paid at times for one euro at the beginning of January 2024. Around a year ago, the single European currency was still trading just above parity against the franc, after which it steadily headed downwards.

"The euro depreciated by around 6 per cent against the Swiss franc last year."

EUR/CHF



The reasons for the weakness of the euro are indeed complex. Obvious factors include the low interest rate differential, lower inflation in Switzerland, political and economic stability, the gloomy growth prospects in Europe and

"The weakness of the euro is likely to continue in the short term."

the rise of populist politicians. The upward pressure on the Swiss franc is likely to continue, at least in the short term. The extent of central banks cutting interest rates is also highly relevant. We do not see the euro/CHF moving back towards parity in the foreseeable future. However, a so-called "soft landing" could reverse the currency trend in the second quarter.

Market overview 29 December 2023

Stock indices (in local currency)	Current	1 Mt (%)	YtD (%)
SMI	11,137.79	2.61	7.06
SPI	14,571.23	2.35	6.09
Euro Stoxx 50	4,521.44	3.22	23.21
Dow Jones	37,689.44	4.93	16.18
S&P 500	4,769.83	4.53	26.26
Nasdaq	15,011.35	5.62	44.70
Nikkei 225	33,464.17	0.04	30.90
MSCI Emerging Countries	1,023.74	3.87	10.12

Commodities

Gold (USD/fine ounce)	2,062.98	1.30	13.10
WTI oil (USD/barrel)	71.65	-5.67	-10.73

Bond markets

US Treasury Bonds 10Y (USD)	3.88	-0.45	0.00
Swiss Eidgenossen 10Y (CHF)	0.70	-0.17	-0.92
German Bundesanleihen 10Y (EUR)	2.02	-0.42	-0.55

Currencies

EUR/CHF	0.93	-2.52	-6.13
USD/CHF	0.84	-3.86	-8.99
EUR/USD	1.10	1.39	3.12
GBP/CHF	1.07	-3.01	-4.21
JPY/CHF	0.60	1.74	-15.44
JPY/USD	0.01	5.07	-7.04

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