Investment Report

January 2025

Factum AG
Current positioning:

Portfolio balanced	Neutral	Current	Change*
Liquidity	3%	4%	↗ (+1%)
Bonds	35%	35%	→
Shares	47%	46%	→
Alternative investments	15%	15%	↘ (-1%)

**Changes since the last Investment Report (5 December 2024) & current assessment.*

"Strongly diverging equity markets."

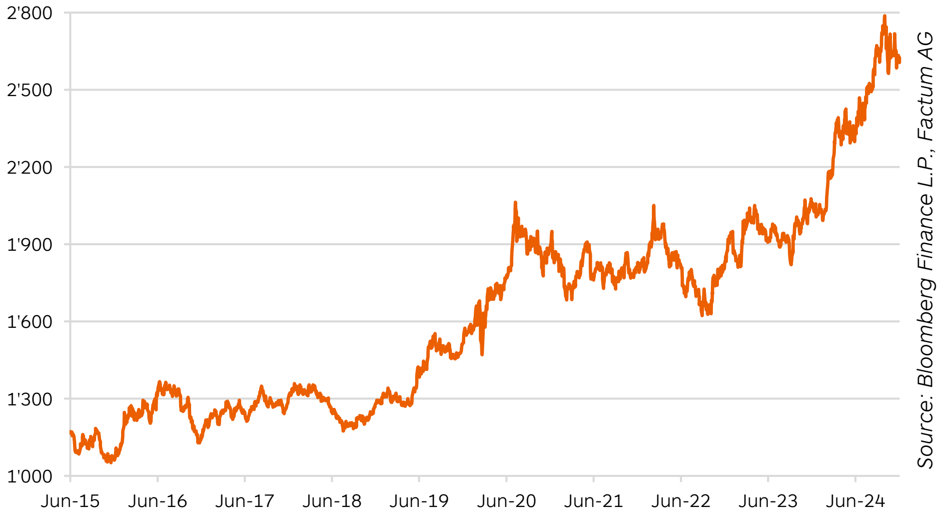
Strategy overview

The investment year 2024 can be considered appealing, despite occasional volatile phases. Unsurprisingly, the majority of the positive performance contribution in our managed portfolios stems from equities. Particularly noteworthy is the development of the U.S. equity market, which posted a remarkable gain of +25%. Once again, Europe lagged behind the U.S. with a more modest increase of +12%. The Swiss equity market managed to achieve only a 7.5% gain, significantly impacted by the price debacle of Nestlé (-25%), which has lost 42% of its value over the past three years. Nestlé is struggling with sluggish sales growth, deteriorating profitability, and reduced consumer willingness to pay premium prices. The strongly diverging performance of the equity markets highlights the crucial importance of diversification and maintaining exposure to different equity markets.

The positive development of gold (+27%) should also be mentioned, as it once again benefited from geopolitical tensions. We have maintained a gold allocation for 9.5 years, during which its value has increased by approximately 125%.

"Gold appreciated by 27% in value over the past investment year."

Gold price



The past investment year once again underscores the importance of staying invested and keeping a steady hand during turbulent market conditions. As previously mentioned, the U.S. equity market gained 25% in value. However, had one panicked during volatile phases and exited U.S. equities, missing the ten best trading days, the performance would have been reduced to approximately 4%. As has been emphasized here on several occasions, it may sound simple, but maintaining discipline – staying calm and composed during negative market phases – pays off in the long run when it comes to asset management.

"It may sound simple, but staying invested and remaining disciplined pays off in the long run."

The past December clearly demonstrated that investing is not a one-way street. During its meeting on December 18, the Fed dashed hopes for imminent rate cuts. Current inflation levels prevent any further easing of monetary policy. Consequently, the yield on the ten-year U.S. Treasury rose from 4.15% at the beginning of December to 4.60% by the end of the month. The U.S. equity market (S&P 500) subsequently lost around 2.5% in value in December. Since U.S. equities account for more than 70% of the global equity index, the index as a whole declined by just over 2% during the month.

"The Fed triggered a shift in sentiment in December."

S&P 500 Index

The strategy committee of Factum AG wealth management decided on the following changes related to the strategic asset allocation (SAA – medium- to long-term perspective) during its meeting in early December:

"Changes related to the strategic asset allocation (SAA)."

- **Introduction of a strategic industrial metals allocation** – at the expense of «Liquid Alternatives / Hedge Funds».
- **Increase in USD exposure** – by reducing U.S. equities (hedged in reference currency) in favor of U.S. equities (unhedged).
- **Removal of inflation-linked products** – in favor of domestic market and global sovereign and corporate bonds.

We have temporarily decided not to include cryptocurrencies (particularly Bitcoin) in the SAA, as it would be rather pro-cyclical following the current "hype" after the U.S. elections, and we still lack empirical evidence of their diversifying benefits. Recent history shows that cryptocurrencies often behave similarly to the equity market in practice. However, we do not rule out a temporary tactical allocation (as currently in our strategic fund, FACTUM Funds - Balanced).

"We currently have no crypto exposure in our managed mandates."

"What positioning have we started the investment year 2025 with?"

We are currently overweighting cash positions to protect the capital base and to take advantage of potential investment opportunities. For bonds, we have started the investment year 2025 with a neutral weighting. The equity allocation has been slightly underweighted, particularly due to valuations that, in historical comparison (especially in the U.S.), are no longer considered attractive. For diversification purposes, we still consider a portfolio allocation to hedge funds to be sensible, although we have slightly reduced our exposure recently. Additionally, we have allocated part of the alternative asset class to global real estate equities with attractive yields. Over the years, our gold position has proven to be a highly effective diversifier.

Politics

"What lies behind Trump's provocations and how is Europe responding?"

Although Donald Trump is not yet in office, Europe is already outraged by his statements regarding Greenland, Canada, and the Panama Canal. However, the Old Continent would be better advised to understand the real issues behind the provocative remarks of the incoming president. Greenland holds a strategically central position, and both Russia and China are attempting to dominate the Arctic region. The Panama Canal also undeniably has a connection to China. Two ports of the 82-kilometer-long canal, which connects the Atlantic to the Pacific, are operated by Chinese companies. Additionally, around forty percent of U.S. container traffic passes through the Panama Canal. In the event of an escalation of the conflict over Taiwan, China could block the canal's passage. The Panama Canal was constructed by the U.S. in 1914 and handed over to Panama in 1977. European expressions of outrage do little and ultimately benefit Russia and China. The danger lies in the West blocking itself instead of focusing on the key challenges posed by Russia and China, and agreeing on a common approach. The prerequisite for this, however, is not merely commenting negatively on Trump's statements, but addressing the real issues of today, such as Greenland and the growing influence of Russia and China in the Arctic. In this regard, discussions and cooperation offers to Washington would be more helpful than mere expressions of indignation.

Federal President Frank-Walter Steinmeier, following the FDP's exit from the coalition, has dissolved the Bundestag as expected and confirmed the election date for February 23. This decision was justified by the need for a capable government and reliable majorities in parliament to ensure stability in challenging times. For the first time since the founding of the Federal Republic, four candidates will compete. The SPD will again field the incumbent Chancellor Olaf Scholz. The CDU and CSU have chosen Union faction leader Friedrich Merz as their candidate. The Greens have nominated Robert Habeck as their chancellor candidate at their party convention. The AfD leadership plans to send party leader Alice Weidel into the race.

"Germany before new elections: Steinmeier dissolves the Bundestag."

Economy

Global economic data has been increasingly diverging in recent times. In the U.S., the economy shows relative robustness, while in Europe, storm clouds are gathering, partly due to political uncertainties. Uncertainty surrounding the upcoming German government and its economic policies, as well as risks related to France's national debt and budget deficit, are at the center of concerns. In China and other emerging markets, mixed economic data is being published, with some Chinese economic indicators benefiting from the economic stimulus measures announced in November. Switzerland's economic performance is better than that of the Eurozone, and an improvement in Eurozone economic conditions would be advantageous for Switzerland. From an investor's perspective, the situation is not so straightforward. Stock markets in struggling countries often surprise with remarkable rallies. While German stocks gained about 19% in value last year, Swiss stocks advanced only 6%, despite Switzerland being a haven of stability and Germany facing a political and economic crisis. Overall, expectations for Europe are low, and even small positive surprises could trigger favorable market movements.

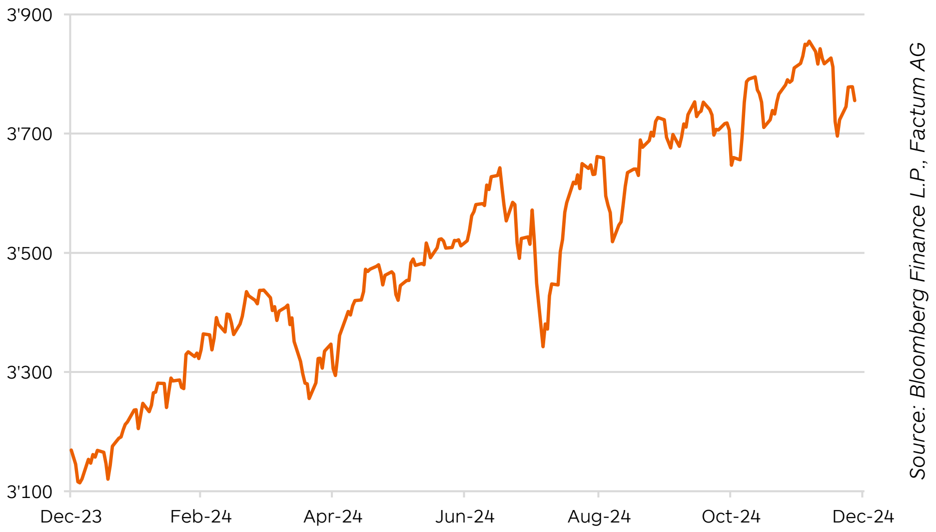
"Strongly diverging global economic data."

Equity Markets

The strikingly different performance of global equity markets in the past investment year was already addressed at the beginning of this investement report. The broad global equity index gained around 19% in value in 2024, with the approximately 70% weighting of U.S. equity exposure contributing significantly. The so-called Magnificent Seven – Amazon, Apple, Google, Microsoft, Meta, Nvidia, and Tesla – currently have a combined market capitalization of USD 17.5 trillion. This enormous figure highlights the immense expectations surrounding artificial intelligence. To mitigate the "concentration risk" of tech companies, we have long since invested a portion of our U.S. equity exposure in an investment solution that gives each stock equal weight.

"Concentration risk in tech companies."

World Equity Index



The transition to the Trump administration is imminent. The three key priorities from his election platform – immigration, trade tariffs, and taxes – are likely to be addressed swiftly. Specifically, the issues of trade tariffs and taxes will have a direct impact on market movements and the state of the economy. Much of this may already be reflected in the positive performance of U.S. equities, including a potential corporate tax cut from 21% to 15%, which would further lift valuations. The negative aspects of the agenda, such as the imposition of tariffs on all imports, especially from China, could have significant repercussions for the global economy, but are difficult to quantify at this stage, as other countries will likely not remain passive.

"The Trump administration has defined clear priorities."

Around 100 years ago, America initiated a trade war (Smoot-Hawley Tariff Act of 1930) by imposing tariffs of up to 60%. This caused global trade to become completely disrupted, fueling the Great Depression of the early 1930s. While we do not anticipate a similar scenario, Trump's second term is likely to hold some surprises. From our perspective, it is not advisable to take extreme positions at this time, which is why we have slightly underweighted our equity allocation, particularly in emerging market stocks. The remaining regions – Switzerland, Europe, the U.S., and Japan – have been given a neutral weighting.

"We have slightly underweighted the equity allocation."

FACTUM

Bond Markets

As expected, the ECB lowered the key interest rate by 25 basis points in December, but it remains in restrictive territory. The growth and inflation forecasts were slightly revised downwards, but they are still likely too high.

"The ECB cuts the key interest rate by 25 basis points."

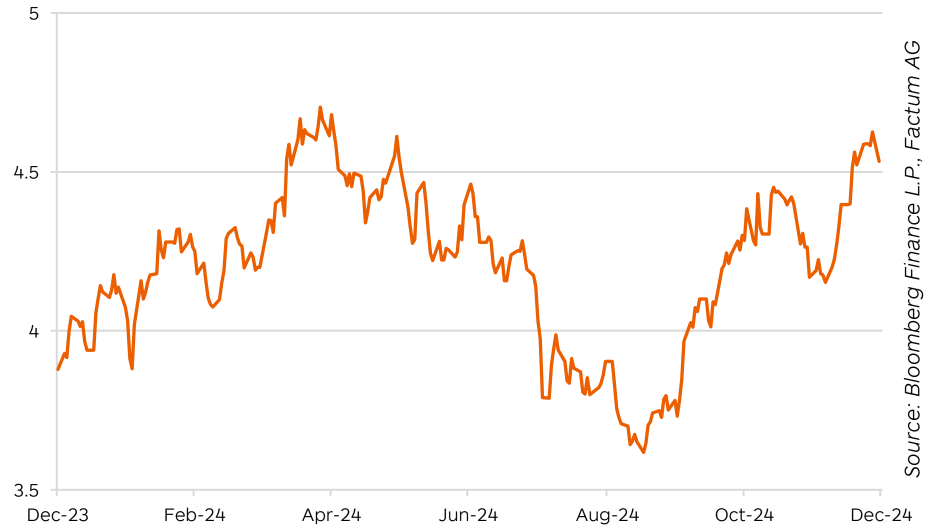
The Swiss National Bank (SNB) opted for a more aggressive approach, cutting the interest rate by half a percentage point. While a rate cut had been anticipated by all market observers, there was a consensus among economists that it would likely only be a small step. The significant rate cut likely came about due to a recent decline in underlying inflationary pressure. Additionally, the SNB had to consider that, compared to the ECB, it has fewer meeting opportunities and, therefore, needs to take larger rate steps to prevent the interest rate differential with the Eurozone from becoming too narrow. Based on the press release and the statements made by the board at the press conference, we consider it likely that further rate cuts are in the pipeline.

"Aggressive interest rate cut by the SNB."

Since mid-September, there has been a significant correction in U.S. Treasuries, which has been accentuated further since the U.S. elections. The yield on U.S. Treasuries rose from 3.60% to as high as 4.60%. On the one hand, financial markets are adjusting to the prospect of a second term for Donald Trump, whose fiscal policy is likely to be characterized by high budget deficits and inflationary tendencies. On the other hand, a series of strong macroeconomic data points, including the recently published robust U.S. job market data for December, contributed to this shift. This, in turn, provided a clear rejection of the more ambitious expectations for significant rate cuts.

"Correction in U.S. Treasuries since mid-September."

Yield on 10-year U.S. Treasuries in %



Commodities

"Gold remains in vogue."

The price of gold was able to increase by 27% in the past investment year and has already risen by around 2.5% in the first two weeks of 2025. However, the precious metal has a significant disadvantage: it does not yield any interest or dividends. A positive driver for gold's price is certainly the geopolitical risks, including the war between Russia and Ukraine, as well as the conflict in the Middle East. Additionally, the unpredictability of the incoming U.S. President, Donald Trump, has created uncertainty among investors. The political crises in Germany and France also contribute to this. Further support comes from gold purchases by central banks of authoritarian regimes, who seek to reduce their dependence on the U.S. dollar. The freezing of Russia's dollar reserves has given this trend a push. High national debts are also likely to have had a positive effect, as many investors fear a devaluation of currencies due to this development. In China, gold has gained popularity due to the weakness of the real estate market and a lack of alternative investment options. Several stock indices have reached record highs, and valuations are, from a historical perspective, quite advanced, leading investors to view gold as a diversifier. All in all, we still consider a gold allocation in the portfolio context to be justified. In a mixed portfolio, we currently hold a position of 3%.

Currencies

The U.S. dollar has significantly benefited since the end of September, especially after the unexpectedly decisive victory of Donald Trump in the U.S. presidential elections. As a result, global financial markets are pricing in an increasing likelihood of higher import tariffs on goods from the Eurozone and other regions, which has led to notable gains for the U.S. dollar against the world's major currencies, including the Swiss franc. In the wake of Donald Trump's inauguration, it will become clear what actions will be implemented. Furthermore, it will be of utmost relevance how the key central banks, particularly the U.S. Federal Reserve and the European Central Bank, will respond. In December, we slightly increased our USD exposure in our managed portfolio mandates.

"The U.S. dollar has been able to benefit in recent months."

U.S. Dollar Index

FACTUM

Market overview 31 December 2024

Stock indices (in local currency)	Current	1 Mt (%)	YtD (%)
SMI	11,600.90	-1.39	7.54
SPI	15,472.33	-1.28	6.18
Euro Stoxx 50	4,895.98	1.95	11.90
Dow Jones	42,544.22	-5.13	14.99
S&P 500	5,881.63	-2.39	25.00
Nasdaq	19,310.79	0.56	29.60
Nikkei 225	39,894.54	4.52	21.27
MSCI Emerging Markets	1,075.48	-0.12	7.97

Commodities

Gold (USD/fine ounce)	2,624.50	-0.71	27.22
WTI oil (USD/barrel)	71.72	5.47	0.10

Bond markets

US Treasury Bonds 10Y (USD)	4.57	0.40	0.69
Swiss Eidgenossen 10Y (CHF)	0.33	0.08	-0.38
German Bundesanleihen 10Y (EUR)	2.37	0.28	0.34

Currencies

EUR/CHF	0.94	0.86	1.21
USD/CHF	0.91	3.00	7.84
EUR/USD	1.04	-2.11	-6.21
GBP/CHF	1.14	1.21	5.97
JPY/CHF	0.58	-2.02	-3.40
JPY/USD	0.01	-4.73	-10.28
XBT/USD (Bitcoin)	93,714.04	-3.84	123.47

Author: Christof Wille, Dipl. Private Banking Expert NDS
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