Investment Report

July 2024

Factum AG
Current positioning:

Portfolio balanced	Neutral	Current	Change*
Liquidity	3%	3%	→
Bonds	35%	35%	→
Shares	47%	45%	→
Alternative investments	15%	17%	→

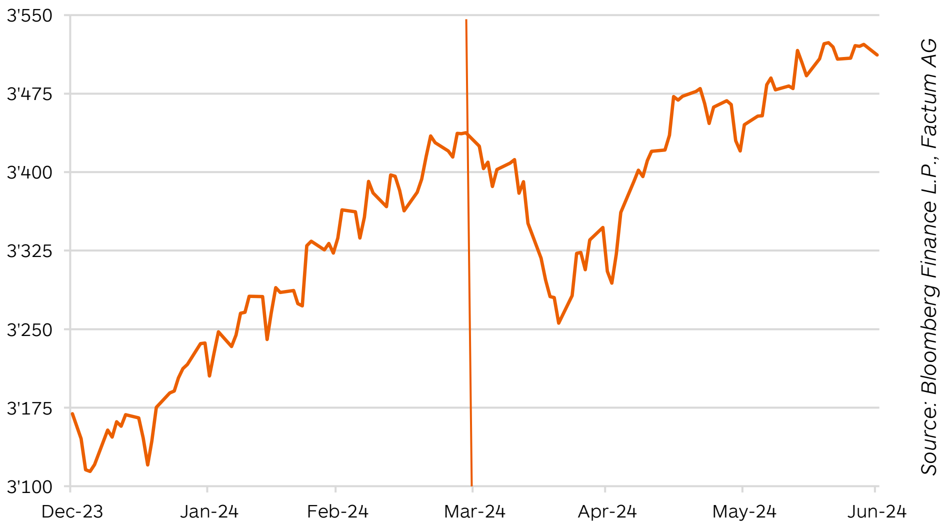
**Changes since the last Investment Report (4 June 2024) & current assessment.*

Strategy overview

"Bumpy equity markets, interest rate cuts, political hurdles – the second quarter was full of events."

The second quarter got off to a somewhat bumpier start in April. There are two primary causes for this: Firstly, geopolitics with the hotspots Israel and Iran and the associated risk of an escalating conflict, as well as the faltering trend towards disinflation in America. The price correction in April, with global equities losing around 4%, was made up again in May. What was striking was the fact that the market responded positively to disappointing economic figures and the associated prospect of possible interest rate cuts. Then, in June, the focus shifted to the interest rate decisions of the major central banks. While, as expected, the ECB announced the first interest rate cut since 2019, the Fed once again held its fire. In view of the still relatively robust US economy and the persistent inflationary pressure, the majority of the market participants had expected this decision. The slight decline in US inflation for the month of May was received positively. This was reflected in falling yields on US government bonds. The US stock markets are continuing their record-breaking run, and the gap in performance compared to the European stock market has widened even further. The announcement by Macron that early parliamentary elections would be held in France had a negative impact on the European equity market. As a result, the euro fell by around 1.6 per cent against the Swiss franc in May. All this, together with moderate inflation, may have prompted the SNB to cut interest rates for the second time this year by a further 25 basis points to 1.25 per cent. Here, it is worth mentioning that the Swiss stock market (Swiss Performance Index) was able to increase significantly in value in the second quarter, namely by around 3.3 per cent, while the European stock market (Euro Stoxx 50), for example, lost around 1.8 per cent in value.

World Equity Index



As a result, one of the asset management mandates managed by us with a balanced risk profile (reference currency CHF) gained over 6 % in value in the first half of the year. Does this give cause for euphoria? Not at all. It is important to reiterate that investments should, in principle, be made in equities, as most of the market is in an upward trend. The challenge for us as asset managers is market timing, i.e. when to reduce or increase the risks again and consequently actively manage the bandwidths of the individual asset classes.

"An excellent first semester for a Swiss investor with a balanced risk profile."

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At the moment, we have a neutral weighting for liquidity. From a yield perspective, money market investments do offer an alternative. However, we believe that an allocation only makes sense to protect the capital base or to take advantage of potential investment opportunities. The euphoria over the interest rate cuts at the turn of the year has evaporated. Improved economic data and a somewhat sluggish decline in inflation have led to a rise in yields for longer maturities (especially in US dollars). As a result, we are maintaining our neutral weighting for the time being. To achieve an acceptable return, we are investing in a mix of government and corporate bonds and, among other things, we 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 global economic recovery is taking place against a backdrop of equity market valuations that are no longer favourable by historical standards (mainly in the USA). We have eliminated our underweight in the USA by adding an equally weighted index product. Due to the economic and geopolitical uncertainties, we are not yet willing to increase the risk in the portfolios further and remain slightly underweight in equities overall. 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. The position of gold has also proven to be a good diversifier.

"How are we going to start the 3rd quarter 2024?"

Politics

2024 is a super election year, with elections being held in over 80 countries and around 80% of the world's market capitalisation. For example, elections were held in India at the beginning of June, where the Hindu nationalists led by Narendra Modi won the elections, however, they did so less clearly than predicted. As a result, 73-year-old Modi will rule India for another five years, which will be his third term in office. Growth, prosperity and a Hindu-first policy are the slogans of Modi's Bharatiya Janata Party (BJP). However, this is only likely to be possible if foreign countries invest in India. Such investments are needed to create jobs as there are far too few for India's young population. However, an excessively extreme Hindu nationalist policy could deter foreign investors.

"Elections are important, but it is difficult to predict their impact on the market."

The Rassemblement national emerged as the strongest force in the first round of voting for the French parliament, and now it's down to the runoff. Marine Le Pen's party received 33 per cent of the votes cast. The newly formed left-wing alliance Nouveau Front populaire received 28.5 per cent of the vote, while the Macron alliance, known as Ensemble, came in third with 22 per cent. At 67.5 per cent, voter turnout was as high as it had last been 40

"Le Pen's party gets one in three votes."

years ago. The second round of voting is now going to be the key factor. Initial forecasts suggest that the Rassemblement national could become the strongest force in the lower house with between 255 and 295 seats. Macron's own office is not up for debate, as the presidential elections take place separately – the next one is in 2027. The French have the parliamentary elections that are now being held thanks to Macron's decision to dissolve parliament on 9 June. He did so in response to the disastrous defeat of his party in the European elections.

The US presidential election at the beginning of November is already casting its shadow. The first televised debate between President Biden and challenger Trump at the end of June was clearly won by Trump. A CNN poll showed that 67 per cent of TV viewers considered Trump to be the winner. The debate covered all areas of politics. Biden seemed distracted, broke sentences off, searched for words and simply did not appear to be on top of the situation. Trump appeared vital and focussed and it was this that earned him a victory in this TV debate. Now, speculation is rife about a possible replacement candidate on the part of the Democrats, with major US newspapers as well as advisors and donors to the Democrats at least talking about it. Names such as California Governor Gavin Newsom and current Vice President Kamala Harris are already being bandied about. However, the voluntary withdrawal of President Biden would be a prerequisite for a new candidacy, and, currently, this does not look very likely. The Democratic National Convention will take place in Chicago, Illinois, from 19 to 22 August 2024.

"Nervousness among the Democrats – Biden's TV appearance turns into a disaster."

Economy

Inflation in the USA is not yet within the Fed's target range. As a result, interest rates will remain at an elevated level, at least for the time being, and will remain so until US growth has cooled down sufficiently. Currently, the market is expecting one or two interest rate cuts in the USA in the second half of the year. Economic data recently published in the USA was weaker than expected. Overall, it seems that the weak GDP growth in the first quarter – 1.4 per cent annualised – will not be followed by a strong acceleration in the second quarter. It would certainly not be too surprising should growth in the USA begin to weaken and then accelerate in the second semester. Perhaps Europe and the rest of the world might be able to continue to grow and compensate for weaker US growth. This would be a positive development. A negative development would undoubtedly be for the US labour market to suddenly weaken significantly. This would then stifle consumption and US economic growth. Another challenge, for example, would be an environment in which the US economy surprises on the upside and Europe and the rest of

"A challenging economic environment for the second half of the year."

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the world enter a boom phase. Such events would further strengthen inflation as well as the interest rate cycle. With the exception of April and May, there was no major fluctuation on the stock markets, but this could change in the second half of the year due to uncertain economic developments.

Equity markets

Global equity markets had a mixed second quarter, which is not surprising after the brilliant first quarter. In terms of the reporting season, European companies posted lower profits than in the same quarter of the previous year, compared with US companies. However, earnings expectations were not below the historical average of recent years. At the sector level, technology and communications companies in the US posted better-than-expected results, while in Europe companies in the raw materials and healthcare sectors surprised on the upside. All in all, corporate results in the US and Europe were above consensus expectations. We would not be surprised to see an increase in volatility during the summer months, as this often corresponds to a seasonal pattern. The stock markets have also performed well this year, and the elections – for example in France – are increasing uncertainty about the future French position vis-à-vis the EU.

"Diverging trends on the global equity markets in the second quarter."

Interest rate cuts – such as those implemented by the SNB and the ECB – are a supportive factor for the global equity markets. Growth stocks in particular are benefiting from this. Current valuations are above the long-term average worldwide, and this is driven by the USA. The other regions are close to the average. From a technical perspective, the market is still on an upward trend in the medium to long term. Sentiment indicators are all in the neutral zone. The deterioration of the economic environment in the USA could prove to be the biggest problem. Due to the economic and geopolitical uncertainties, we are not yet prepared to further increase the risk in the portfolios and remain slightly underweight in equities overall. This is reflected in emerging market equities.

"Overall, we are currently slightly underweight in equities, which is reflected in emerging market equities."

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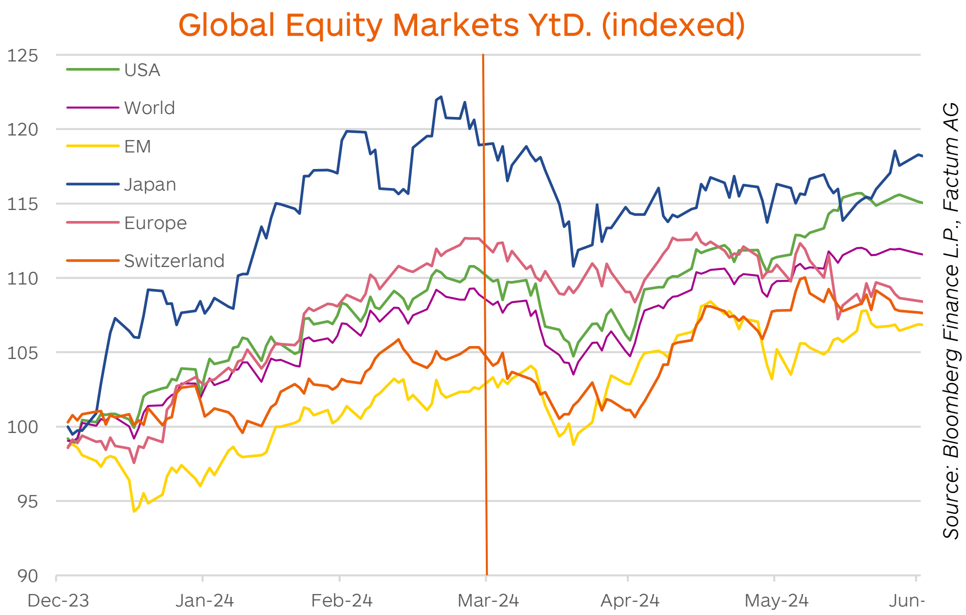


Bond markets

The global interest rate turnaround has become a reality. In addition to the ECB, the SNB, the Bank of Canada and the Swedish Riksbank, various emerging markets have also lowered their key interest rates. In June, the SNB cut its key interest rate for the second time this year. The development of the Swiss franc probably played an important role in this decision. We do not expect the ECB to lower interest rates in July. The SNB will meet again at the end of September, but it, too, is not expected to lower interest rates. The Fed's next meetings are scheduled for July, September and the day after the US presidential elections, namely 6 November. In the past, the Fed has refrained from changing interest rates a few months before elections. This makes it rather unlikely that the Fed will raise interest rates before 5 November.

"The global interest rate turnaround became a reality in the first half of the year."

In the light of the uncertainties surrounding economic and fiscal policy and the potential for inflation fluctuations, it seems to make sense to tend towards the credit quality of better bonds from the investment grade segment. In general, the additional yields on corporate bonds have made a comeback in recent months compared to government bonds and they are attractive on a multi-year comparison. The comparatively low inflation in Switzerland and the fear of European politics are providing support for bonds in Swiss francs. Improved economic data and a somewhat sluggish decline in inflation have led to a rise in yields for longer maturities (especially in US dollars). As a result, we are maintaining our neutral weighting for the time being.

"We are maintaining our neutral weighting of the bond quota."

Commodities

Gold has recently reached record highs. There are several factors that are supporting this. Central banks in emerging markets have steadily increased their gold holdings in recent quarters. This is because they fear that they could face a similar fate as Russia and have their USD reserves blocked by the West. The weakness of the Chinese currency is also fuelling demand from Chinese investors. The elections in France, conflicts such as those in Ukraine and the Middle East, and the inflationary policies that could result from a new Trump administration are also providing support for the gold price. In addition, the expected changes in the policy of the Federal Reserve are of crucial importance for the gold price. Forecasts indicate one or two interest rate cuts in the second half of the year, which would provide additional support. Lower interest rates reduce the opportunity cost of holding interest-free assets such as gold. This makes gold more attractive compared to interest-bearing assets. Gold gained around 13 per cent in the first half of the year, after the yellow precious metal had already risen by 13 per cent in the investment year 2023. All in all, we are maintaining our neutral weighting, which means three per cent in a balanced risk profile.

"Gold is positively influenced by various factors."

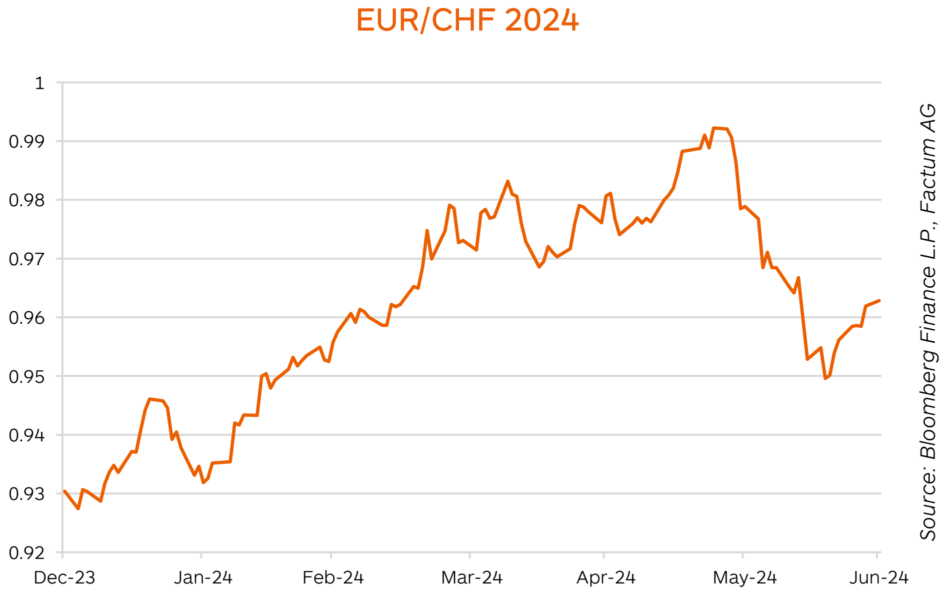
Price of gold in 2024

Source: Bloomberg Finance L.P., Factum AG

Currencies

During the first half of the year, the Swiss franc lost some of its historically high valuation, especially against the euro and the US dollar. However, as a result of the French parliamentary elections, the Swiss franc has recently gained ground against the euro. International investors are still seeking protection in the Swiss franc in view of the geopolitical problems. US currency is valued at an above-average level compared to the currencies of its most important trading partners, but this is (still) being supported by higher bond yields and money market rates. The euro is valued at around parity with the US dollar in terms of purchasing power. In the coming months, there could be an increase in the volatility of the euro in both directions compared to other currencies.

"The Swiss franc has tended to weaken in the first half of the year."



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Market overview 28 June 2024

Stock indices (in local currency)	Current	1 Mt (%)	YtD (%)
SMI	11,993.83	-0.04	11.04
SPI	15,919.28	-0.46	9.25
Euro Stoxx 50	4,894.02	-1.72	11.15
Dow Jones	39,118.86	1.23	4.79
S&P 500	5,460.48	3.59	15.29
Nasdaq	17,732.60	6.03	18.57
Nikkei 225	39,583.08	2.94	19.30
MSCI Emerging Countries	1,086.25	3.96	7.60
Commodities			
Gold (USD/fine ounce)	2,326.75	-0.02	12.79
WTI oil (USD/barrel)	81.54	5.91	13.80
Bond markets			
US Treasury Bonds 10Y (USD)	4.40	-0.10	0.52
Swiss Eidgenossen 10Y (CHF)	0.60	-0.33	-0.10
German Bundesanleihen 10Y (EUR)	2.50	-0.16	0.48
Currencies			
EUR/CHF	0.96	-1.64	3.65
USD/CHF	0.90	-0.39	6.82
EUR/USD	1.07	-1.24	-2.95
GBP/CHF	1.14	-1.23	6.05
JPY/CHF	0.56	-2.65	-6.42
JPY/USD	0.01	-2.22	-12.33

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