

Investment Report

October 2024

Factum AG Current positioning:			
Portfolio balanced	Neutral	Current	Change*
Liquidity	3%	3%	→
Bonds	35%	35%	→
Shares	47%	46%	↗ (+1%)
Alternative investments	15%	16%	↘ (-1%)

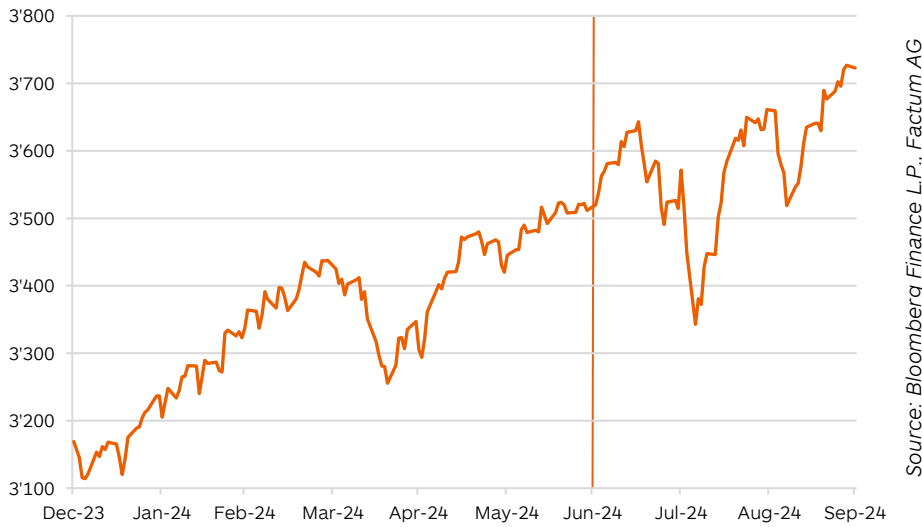
*Changes since the last Investment Report (5 September 2024) & current assessment.

Strategy overview

After several stock market indices reached new all-time highs in August, equity markets came under pressure at the beginning of September. Disappointing U.S. economic data and a weak labor market report reignited recession fears once again. However, declining U.S. inflation figures for August provided relief among the investment community. While the European Central Bank, as expected, cut interest rates by 25 basis points for the second consecutive time, the U.S. Federal Reserve began its rate-cutting cycle with an extraordinary 50 basis point reduction. Two more rate cuts are anticipated by the market before year-end, fueling hopes for a "soft landing" scenario. Equity markets reacted positively, with some indices reaching new all-time highs. In Switzerland, SNB President Thomas Jordan, as expected, left office with a 25 basis point easing, marking the third cut in the current investment year. Toward the end of September, China's party leadership delivered a major surprise to the markets. With the most comprehensive stimulus package since the COVID-19 pandemic, it aims to stimulate the weak domestic economy.

"Despite increased volatility at the beginning of September, certain stock markets reached new highs towards the end of the month."

World equities



The U.S. election campaign is entering the final stretch, with election day set for November 5th. Looking at the performance of the S&P 500 in the U.S. over the last 70 years in the two months following elections, we find that the period was positive in 14 out of 18 election years. In positive years, the average performance was around 3.5%. In two of the four negative election years—namely 2000 and 2008—a recession was underway. Historically, October, the month preceding the elections, has been more negative compared to years without elections. In summary, this suggests that one should avoid selling in a negative or volatile market prior to the U.S. elections, as the remaining two months of the year tend to overcompensate.

We are now in the fourth quarter of 2024, which will be shaped by the outcome of the U.S. elections and, subsequently, by the recalibration of investment markets. Additionally, the upcoming Q3 2024 earnings season is expected to keep markets on their toes. In the past month, we made the following adjustments to our managed portfolios:

Reduction of hedge fund allocations across all risk profiles: To increase flexibility within traditional asset classes, we decided to reduce our hedge fund allocation by 1% across all mandates, temporarily in favor of liquidity.

"The months following U.S. elections have been positive in 80% of cases over the past 70 years."

"What changes did we make to our managed portfolios in September?"

"Reduction of the hedge fund allocation."

All "Core" Mandate Types with Equity Allocation: Due to the announced measures to stimulate the economy in China and the prospect of a faster rate-cutting cycle in the U.S., we increased our allocation to emerging market equities by 1%, while remaining slightly underweight in equities overall. The reason for this relatively small adjustment is that, with our commodity investments—primarily in industrial metals needed to advance decarbonization—we are already somewhat sensitive to economic conditions outside of the equity allocation.

Rebalancing gold exposure: As the price of gold has increased by approximately 28% since the beginning of the year, we realized gains on a small portion of the position and adjusted the allocation back to its original level.

From a return perspective, money market investments are still an alternative. However, we only consider an allocation in this area to be sensible for capital preservation or to take advantage of potential investment opportunities. The interest rate cutting cycle has now reached the U.S. Federal Reserve as well. Short-term rates are expected to decline significantly in the coming months. For long-term rates, much has already been priced into the market. Therefore, we are maintaining our neutral weighting for the time being. To achieve better returns, we are investing in a mix of government and corporate bonds, including funds with active duration management. We currently hold a neutral weighting in inflation-protected bonds and emerging market bonds, the latter focusing on hard currency bonds. The global economic recovery coincides with stock market valuations, which, especially in the U.S., are no longer attractive compared to historical standards. Overall, we have slightly underweighted our equity allocation. For diversification reasons, we continue to view hedge fund allocations as valuable, although we have recently reduced our exposure slightly. We have also invested part of our alternative allocation in global real estate stocks with attractive yields. The gold position has also proven to be an effective diversifier.

"Increase of +1% in emerging market equities – overall, we remain slightly underweight in equities."

"Rebalancing our gold exposure."

"How are we entering the 4th quarter of 2024?"

Politics

On November 5th, America will not only hold presidential elections but will also determine the composition of the Senate and the House of Representatives. What matters for the stock markets is how the majority ratios will shift. The most significant change would be a so-called "trifecta," where one party controls the presidency as well as the majority in both chambers. Politically, this would offer the greatest opportunity for change; however, the likelihood of such an outcome is small. It is more likely that the status quo will be maintained, with the Senate and House being controlled by different parties, which would lead to gridlock, resistance, and compromises in Congress.

This election year will undoubtedly go down in history, as no president has withdrawn their candidacy for re-election since 1968, when President Johnson stepped down due to the unpopular Vietnam War. Additionally, there hasn't been an assassination attempt since 1981, when Ronald Reagan was targeted. Since the majorities in both chambers of the U.S. Congress are also being redefined, it is interesting to analyze the differences in the economic policy approaches of the Democrats and Republicans. However, the detailed economic policy agenda will likely not be fully developed until after the elections or even after the new administration takes office.

This time, tax policy is of particular importance. At the end of 2025, the massive income and corporate tax cuts enacted by Donald Trump and the then-Republican congressional majority in 2017 will expire. These cuts have positively impacted the growth of the U.S. economy and corporate profits. The Republicans are in favor of continuing a low-tax policy, and they plan to offset the budgetary effects through reduced government spending, mainly on wind and solar projects, as well as through tariff increases. The Democrats, on the other hand, advocate for tax increases for wealthy Americans and higher corporate taxes, which could potentially dampen the growth of corporate profits and the economy. Substantively, Republicans tend to support traditional energy companies, such as those in the fossil fuel sector, which could be beneficial for U.S. energy security through increased investments in oil and gas projects. Meanwhile, the Democrats aim to continue investing in alternative energy, with subsidies and government spending on solar and wind energy, which, incidentally, has significantly increased U.S. national debt in recent years. The Democrats also seem more determined to lower drug prices, which explains the persistent pressure on the valuations of pharmaceutical companies in recent years.

"The U.S. elections will take place on November 5th."

"The detailed economic policy agenda is yet to be revealed."

"There are significant substantive differences between Democrats and Republicans."

Historically speaking, when assessing how U.S. equities have performed under Republican or Democratic presidents, one quickly concludes that the party in power didn't matter much. The key question was always whether a recession occurred during the president's term. For financial markets, the economy is the top priority, not which political party leads the U.S. government.

Economy

After the stock market correction in early September, a trend reversal occurred later in the month. The trigger for this was the U.S. inflation, which has now been declining for five consecutive months. In August, it stood at 2.5% year-over-year, only slightly above the central bank's target of 2%.

In terms of economic growth, it must be noted that the hopes for a recovery in the manufacturing sector, which emerged in the first half of the year, have not materialized, and the previous weakness in the industry has returned. While the service sector continues to expand and benefits from solid wage growth, a slowdown has also been observed here recently. The declining labor demand and slowing wage growth in the U.S. are reducing the growth of disposable income, which is likely to negatively impact consumption growth. This combination of European industrial weakness, particularly due to weak import demand from China, and the waning demand pressure in U.S. consumption suggests that global economic growth in the second half of 2024 will fall significantly below potential.

Equity Markets

Hopes for a "soft landing" of the U.S. economy helped the MSCI World Index shake off its worries in early September and reach a new all-time high. From a global perspective, this was particularly supported by new fiscal and monetary measures from China.

President Xi Jinping recently urged authorities to strive toward achieving the country's annual economic and social development goals. By the end of September, several government agencies put these words into action. The central bank decided to lower the reserve requirement ratio for banks by half a percentage point to increase lending capacity. Additionally, key interest rates are expected to be reduced further. There were also targeted measures to support the housing market and boost consumption. While these individual measures can be seen as minor steps, given the severe issues in the real estate market, they are unlikely to provide a significant economic boost in isolation. However, the most impactful signal to the market

"For the financial markets, it doesn't matter whether the president is a Republican or a Democrat."

"U.S. inflation stood at 2.5% in August."

"Global economic growth is expected to fall significantly below potential in the second half of the year.»

"MSCI World Index reaches a new all-time high in September."

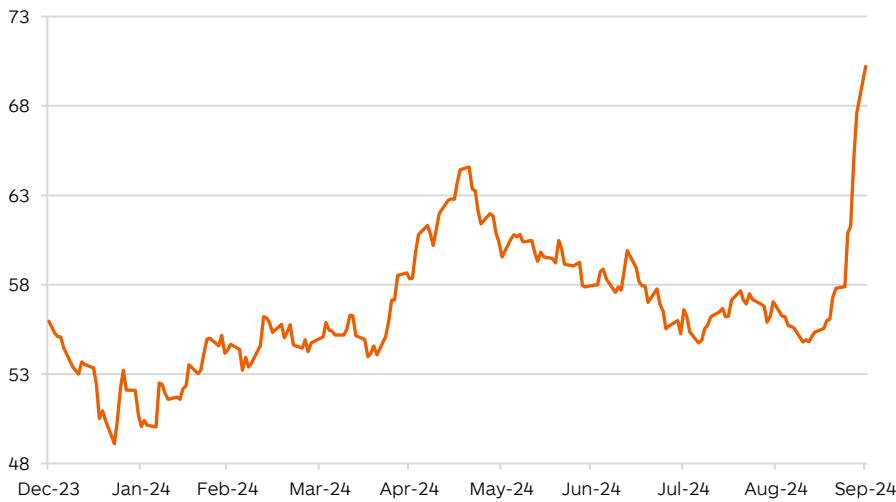
"Coordinated stimulus package for China – MSCI China +30% in the last two trading weeks of September."

was the coordinated approach to addressing these issues, rather than introducing piecemeal solutions. Equity markets responded very positively to this signal. For example, the MSCI China Index advanced by around 30% in the last two trading weeks of September. In Swiss equities, Richemont, which is highly dependent on the luxury market in China, saw significant gains, rising by about 18% in the last trading week of September.

Due to the announced measures to stimulate the economy in China and the prospect of a faster interest rate reduction path in the U.S., we increased our allocation to emerging market equities by 1%, although we remain slightly underweight in equities overall. The reason for this relatively small step is that, with our commodity investments—primarily in industrial metals needed for advancing decarbonization—we are already somewhat economically sensitive outside of the equity allocation.

"Increase of +1% in emerging market equities in September."

MSCI China Index



Source: Bloomberg Finance L.P., Factum AG

Bond Markets

The U.S. Federal Reserve has started its rate-cutting cycle with an unusually large step of 50 basis points. To counter speculation about the state of the U.S. economy, Fed Chair Powell made it clear in his press conference that this should be understood as a recalibration of monetary policy, not as an emergency measure to support the economy. The next rate cuts are likely to be smaller, and we now expect reductions of 25 basis points per meeting. This is supported by the still solid performance of the U.S. economy, as evidenced by the surprisingly strong values of the Purchasing Managers' Indices for the New York and Philadelphia Fed districts, as well as retail sales and declining initial jobless claims.

In September, the SNB cut interest rates for the third time this year by 25 basis points to the current 1%. The central bank's decision reflects the ongoing reduction in inflationary pressures in Switzerland. In the shadow of the Fed, the BoE and BoJ also made their monetary policy decisions. As anticipated, neither made any changes. In the UK, inflation is proving more persistent than in the U.S. In Japan, inflation is even rising, suggesting that an interest rate hike is likely this year. However, the window for additional rate hikes may close quickly, as major central banks around the globe are cutting rates further, which will put upward pressure on the Japanese yen.

As expected, the Fed cut interest rates. The sharply falling NAHB index (housing market) indicates that employment prospects are deteriorating and the unemployment rate is expected to rise. This, in turn, will lead to further cuts in key interest rates, making the outlook for government bonds positive. In Europe, ongoing weakness in growth and declining inflation figures suggest further rate cuts by the end of 2024. Given the positive correlation between equities and bonds, along with a controlled economic slowdown, we believe a neutral position is justified. Broad diversification remains central to our strategy.

"The U.S. Federal Reserve cut interest rates by 50 basis points in September."

"The SNB cut rates for the third time this year by 25 basis points."

"We consider a neutral weighting of the bond allocation to be justified."

Commodities

Gold has delivered a breathtaking 28% increase in value from the beginning of January to the end of September this year. Due to the expectation of significant interest rate cuts by the Fed, as well as geopolitical uncertainties in the Middle East, the yellow precious metal reached a new all-time high of around USD 2,670 per ounce at the end of September. However, if the aggressive rate-cutting expectations fail to materialize, we see correction potential for the metal. The absolute level of real interest rates argues against an overweight position in gold. After falling from 2.5% to just below 1.5%, real interest rates are currently trending weaker. Speculative positioning in both the U.S. dollar and gold futures indicates some correction potential. Additionally, our sentiment indicator has moved into the "overheated" territory for the first time since the summer of 2020.

"Gold has gained 28% in value this year."

Due to the impressive price development of gold this year, we took profits on a small portion of the position in September, returning the allocation to its original level. We continue to view a neutral gold allocation as justified, which means a 3% allocation in a balanced portfolio. All in all, we still consider gold to be an important component within a portfolio context.

"Rebalancing of the gold allocation in September."



Currencies

There are frequent claims that the dominance of the U.S. dollar is coming to an end. In reality, however, there is no sustainable competitor in sight. A large portion of global trade and financial transactions are conducted primarily in U.S. dollars. Additionally, all commodities are denominated in the U.S. currency. The U.S. dollar also benefits from America's growth advantage compared to Europe and Japan. Even after the significant rate cut by the Fed, the interest rate differential remains substantial. The Swiss franc has recently become more volatile, but when adjusted for inflation, it is now clearly less overvalued than it was at the beginning of the year, due in part to Switzerland's relatively low inflation compared to international standards.

"The U.S. dollar remains the dominant currency among the world's major currencies."

Market overview 30 September 2024

Stock indices (in local currency)	Current	1 Mt (%)	YtD (%)
SMI	12,168.87	-2.02	12.81
SPI	16,241.87	-1.59	11.47
Euro Stoxx 50	5,000.45	0.93	13.88
Dow Jones	42,330.15	1.96	13.93
S&P 500	5,762.48	2.14	22.08
Nasdaq	18,189.17	2.76	21.84
Nikkei 225	37,919.55	-1.30	15.05
MSCI Emerging Markets	1,170.85	6.68	17.13

Commodities

Gold (USD/fine ounce)	2,634.58	5.24	27.90
WTI oil (USD/barrel)	68.17	-7.31	-4.70

Bond markets

US Treasury Bonds 10Y (USD)	3.78	-0.12	-0.12
Swiss Eidgenossen 10Y (CHF)	0.41	-0.06	-0.29
German Bundesanleihen 10Y (EUR)	2.12	-0.17	0.10

Currencies

EUR/CHF	0.94	0.27	1.42
USD/CHF	0.85	-0.47	0.21
EUR/USD	1.11	0.79	1.20
GBP/CHF	1.13	1.36	5.32
JPY/CHF	0.59	1.22	-1.04
JPY/USD	0.01	1.77	-1.24

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