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Investment Report

June 2020

Factum AG
Current positioning:

Portfolio balanced	Neutral	Current	Change*
Liquidity	4%	11%	→
Bonds	37%	29%	→
Convertible bonds	4%	0%	→
Equities	41%	43%	→
Alternative investments	14%	17%	→

**Changes since the last Investment Report (06 Mayl 2020) & current assessment.*

Strategy overview

Stockmarket prices are heading unwaveringly towards the record levels of February this year. During the last week of May, the American share index S&P 500 hit 3,000 points for the first time since early March, thereby exceeding its 200-day moving average. In retrospect, the extensive support programmes launched by central banks and governments and the upbeat data on new coronavirus infections gave markets an additional boost. It would seem that investors are anticipating a strong rise in corporate earnings next year. We remain firmly of the view, however, that expectations are somewhat overblown and that there are still many pitfalls to be overcome. This is reflected, for example, by our overweight in liquidity – see the above chart for the current positioning. In addition, we are sticking to our overweighting of gold.

"Our currently rather cautious stance is manifested by the overweighting of the liquidity and gold ratios."

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Our credo at present is patience and increased liquidity. This advice is anything but easy to follow. In Germany, for example, the DAX rose around 45% from its low at the end of March to the end of May. We can best illustrate the present environment with an allegory. The current situation for investors resembles a trip by car through thick fog. If someone overtakes you at 120 kilometres per hour, it may turn out well for the speed merchant. But it is not a responsible thing to be doing. Being overtaken is certainly no reason to put your own foot on the pedal and take similar risks as the speeder. The stock-market upturn is fragile and potential risks are currently being completely blanked out. For example, the violent protests that have broken out in various major American cities pose a threat both to economic recovery as well as to curtailing the spread of coronavirus.

"At present, investors are blanking out news that could potentially damage sentiment."

Politics

The coronavirus pandemic has increased mistrust of China in the United States and other countries. This is merely the latest stage in a prolonged episode that is becoming increasingly confrontational. Beijing was still being seen as a possible strategic partner in Washington over the last decade. This picture has now changed significantly, however. Today China is being viewed as a geopolitical rival. China's goal of reintegrating "lost" territories is colliding with America's ambition to maintain its influence in the Western Pacific.

"China as the new Soviet Union – a cold war with the USA edges closer."

For days, a large number of people in at least 140 cities in the USA have been protesting against the death of 46 year-old African-American George Floyd, who was pinned to the ground by a police officer in Minneapolis. Pictures of the demonstrations show that the suffering and anger triggered by the mindless brutality of the police officer, who has now been indicted, reaches far beyond the black population of America. Video recordings of this arrest are deeply disturbing and it is perfectly understandable that tears of sorrow are mixed with tears of anger. If one looks at the chronology of race riots since the 1960s, there have been regular outbursts of unrest. The turmoil in America's cities is a recurring phenomenon, and it should be the responsibility of policymakers to address the underlying concerns. It is clear that two large groups of the population, namely native Americans and the descendants of African slaves, have been victims of blatant and dramatic injustice.

"America – the country is burning and in chaos."

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Economy

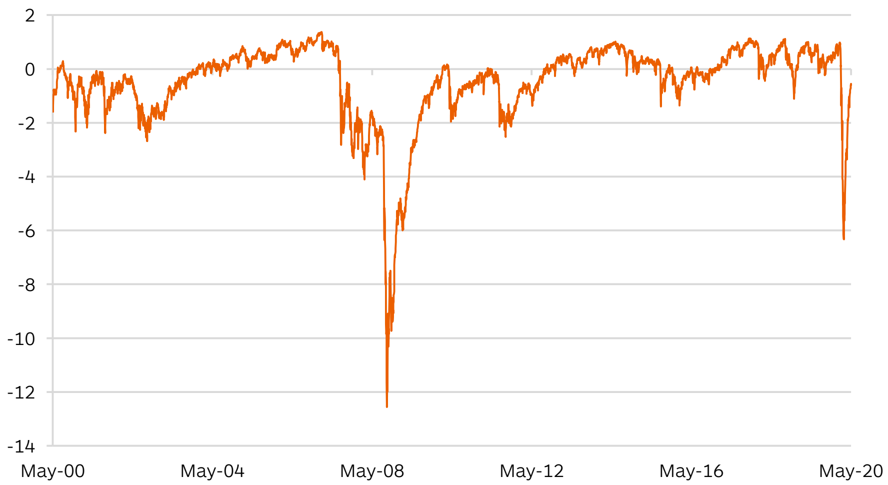
Economic data coming out of the USA remains weak. This is because it emanates mostly from the period of the strict lockdown. It shows that in April, US consumer spending plummeted by a record 13.6% relative to the previous month. This was brought about by corona-related business closures and lockdowns. The figure that had been anticipated was -12.8%. GDP figures for the 1st quarter have again been adjusted downwards. The US economy consequently contracted by 5% (annualised rate).

"Persistently weak US economic data."

There have also been initial indications that the steps to ease the lockdown are resulting in an economic upturn. This should gather momentum in June. For the first time, for example, there were tentative signs of recovery in the labour market. The number of people receiving unemployment benefits (continuing claims) fell for the first time since February and the number of new weekly applications (initial jobless claims) continued to decline. Figures suggest that job losses are continuing to slow and that workers are returning to their positions thanks to the opening up of the economy, a process that started in early May. This is also illustrated by the following chart. The Bloomberg U.S. Financial Conditions Index tracks the overall level of financial stress in the money, bond and equity markets in the USA, in order to obtain a better assessment of the availability and cost of credit.

"The first rays of sunshine can nevertheless be seen on the US economic horizon."

Bloomberg U.S. Financial Conditions Index



Source: Bloomberg Finance L.P., Factum AG

Economic confidence within the Eurozone again edged higher in May. The European Commission's sentiment indicator reached 64.9 points in April, its lowest level since the survey began in 1985. It climbed to 67.5 points this month. The slight improvement in economic confidence is attributable primarily to industrial corporations (+5.0 points) and consumers (+3.2 points).

"Economic confidence within the Eurozone recovering from the 1985 record low."

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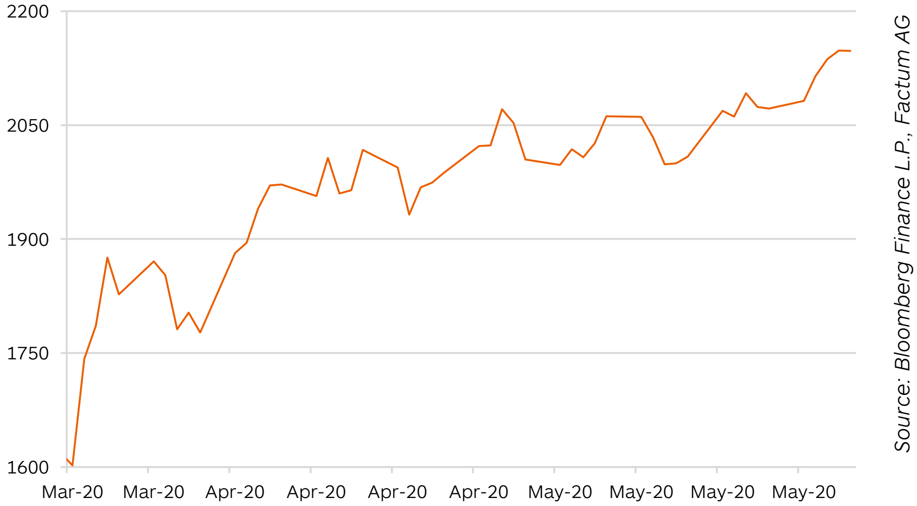
Equity markets

Despite patchy economic indicators, stockmarkets continued their recovery over the past month with unabated momentum. As the following chart shows, the MSCI World Index has gained 35% since its low in March.

"Equity markets post impressive performance from March onwards."

MSCI World Index March - May 2020



Ultimately, the performance of the economy and corporate profits determine the performance of stock prices. Although economic data from China cannot be trusted in the long term, they show what could happen in the rest of the world. Production, although imposed by state diktat, is likely to be around 85% - 90% of the pre-crisis level. Consumption, which cannot be prescribed, is about 70% of the level it was before the coronavirus pandemic. This is an improvement on the 50-60% year-on-year drop in activity that cut China's GDP by -6.8% in the first quarter. In the interim, the volume of money market funds has increased strongly, as have the substantial cash holdings of institutional investors. This suggests that stock prices are very likely to rise once improved economic data comes in. In an uncertain environment, we are favouring US equities, which have proven their worth thanks to our global equities approach. They are benefiting from a lower weighting of the financial sector. This is being hit by even lower interest rates, as these are burdening the bottom line of the financial sector and undermining equities in the Eurozone, where the financial sector is the most heavily weighted sector.

"The performance of share prices is ultimately determined by the performance of the economy and corporate earnings."

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Bond markets

While market volatility was extreme in March, this has now declined, having a positive impact on the bond segment. The volatility of landmark American bonds roughly quadrupled in March, and this has now eased to such an extent that few forced sales of US government bonds are to be expected going forward. On the other hand, the US Federal Reserve and the European Central Bank have agreed not merely to a massive increase in quantitative easing (QE), i.e. bond purchases. They also announced that they will be supporting corporate bonds in particular. This is creating additional demand for corporate bonds in general, which in conjunction with their still above-average yields makes them more attractive, both in terms of liquidity as well as relative to government bonds.

"The decline in market volatility is having a positive impact on the bond segment."

At an extraordinary meeting held at the end of May, the Reserve Bank of India (RBI) took the decision to cut its key interest rate by 40 basis points to a new record low of 4%. The RBI had most recently lowered its key interest rate at an extraordinary meeting at the end of March. The next ordinary meeting had been scheduled for the beginning of June. The Reserve Bank of India declared that all necessary measures are being taken to meet the challenges arising from the coronavirus pandemic. It described its monetary policy approach as supportive. This suggests that further interest rate moves have not been ruled out. The Indian economy has been hit badly by the very strict lockdown measures, and is currently contracting for the first time in four decades. The unemployment rate jumped in April to over 23%. In addition, defaults on bank loans, which were already high, are again rising significantly. For this reason the RBI has put a raft of measures in place to support the banking sector. Inter alia, the moratorium on bank loans has been extended for another three months.

"Reserve Bank of India cuts key interest rates to 4%."

Commodities

Gold is and remains a tried and tested means of safe-keeping, especially in times of crisis. By contrast, silver is glistening far less at present. It has been apparent for some time that the prices of the two most important metals are moving in different directions.

"Diverging performance of gold and silver."

Gold versus silver

For decades, despite the great difference in absolute price terms, the price curves ran more or less synchronously along narrow paths. There was a sort of turning point about ten years ago, following the financial crisis. Although fluctuations have looked similar from day to day ever since, the longer-term market valuations have drifted apart. On the one hand, demand and utilisation differ significantly. In the case of gold, safe-keeping in the form of jewellery and investments accounts for about 86% of the traded quantity, with industry accounting for only 14%. In the case of silver, jewellery processing, investments and other accounts for 32%. 68% is used by industry, which needs it mainly for electronics, dental and medical products. On the other hand, the influence of central banks is noticeable, which are increasingly using gold as a reserve once again, although not silver.

"Demand and utilisation differ significantly."

At the end of May, gold was trading at a price of USD 1,730 per ounce. This means the price is still some way off the all-time record high of USD 1,900 an ounce that the commodity achieved in 2011. Nevertheless, this figure is now within reach.

"The price of gold is close to its all-time high."

Volatility in the oil market remains above average, as the discrepancy between supply and demand remains high and there is a need to reduce global oversupply. The three main producers, Russia, Saudi Arabia and in particular all the USA, will have to risk or reduce their market share in order to stabilise prices. On the other hand, global demand is determined by the economic situation, which is extremely difficult to assess.

"Volatility on the oil market remains above-average."

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Currencies

The financing of rising budget deficits and government debt, which is the logical consequence of fiscal support for economies weakened by the virus, is being funded by massive bond purchases, the like of which has never been seen before in economic history. This means nothing less than the monetarisation of government debt, and in the long term will lead either to greater inflation or to a creeping depreciation of paper currencies. The currencies of countries that engage in particularly high QE are likely to come under more pressure than those that take a more cautious approach. As a result, the Swiss franc could strengthen further against other currencies, especially the euro, over the coming months – after a certain consolidation phase.

"Inflation versus depreciation of paper currencies."

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Market Overview 29 Mai 2020

Stock indices (in local currency)	Current	1 Mt (%)	YtD (%)
SMI	9,831.49	2.46	-4.42
SPI	12,246.05	2.86	-4.61
Euro Stoxx 50	3,050.20	4.94	-17.33
Dow Jones	25,383.11	4.66	-10.06
S&P 500	3,044.31	4.76	-4.98
Nasdaq	9,489.87	6.90	6.28
Nikkei 225	21,877.89	8.35	-6.59
MSCI Emerging Markets	930.35	0.79	-15.89
Commodities			
Gold (USD/fine ounce)	1‘730.27	2.60	14.04
WTI oil (USD/barrel)	35.49	88.38	-41.88
Bond markets			
US Treasury Bonds 10Y (USD)	0.65	0.01	-1.26
Swiss Government 10Y (CHF)	-0.46	-0.14	0.01
German Bund 10Y (EUR)	-0.45	0.02	-0.26
Currencies			
EUR/CHF	1.07	0.92	-1.67
USD/CHF	0.96	-0.38	-0.52
EUR/USD	1.11	1.33	-1.00
GBP/CHF	1.19	-2.38	-7.46
JPY/CHF	0.89	-1.00	0.09
JPY/USD	0.01	-0.58	0.76

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