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FACTUM

Investment Report

June 2021

Factum AG
Current positioning:

Portfolio balanced	Neutral	Current	Change*
Liquidity	3%	9%	↗
Bonds	37%	29%	→
Shares	45%	47%	↗
Alternative investments	15%	15%	↘

**Changes since the last Investment Report (06 May 2021) & current assessment.*

Strategy overview

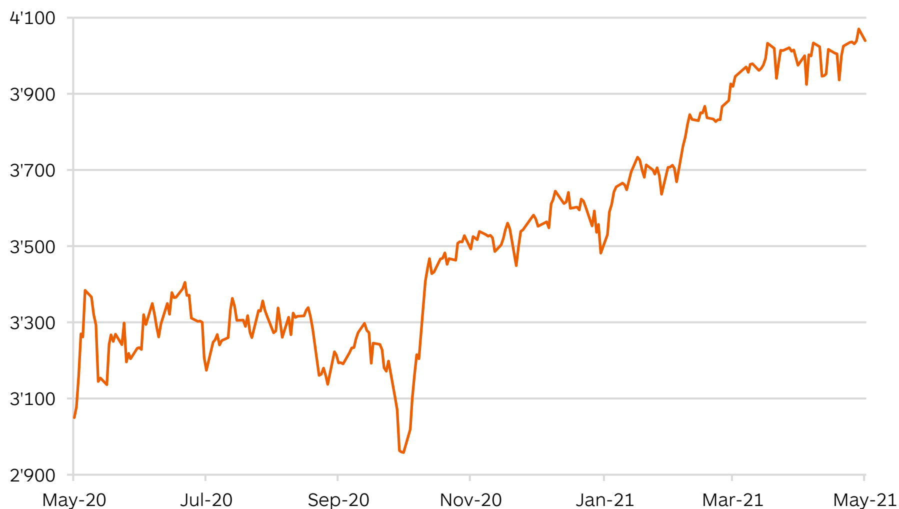
"World equities ratio lifted."

It finally came to pass at the beginning of May: The stockmarket correction we had been expecting materialised, with the broad S&P 500 in the USA losing around 4% in value. However, the price losses were only moderate and it proved possible to identify follow-up purchases relatively quickly ("buy-the-dips"). So we raised our equity ratio to a slight overweight again, taking the overall risk budget into account. This was done by adding a newly selected global equity fund, the Fidelity Global Focus Fund, with which we also slightly increased our US dollar exposure. At the same time as the increase, we trimmed the "SRI bias" implemented via ETF (partial sale of iShares MSCI World SRI ETFs). Of course, the Fidelity Fund also places importance on ESG criteria, but the methodology and the weighting of individual stocks is more balanced compared to the ETF.

"European equities reduced."

Following the strong performance of the European equity market – the Eurostoxx 50 in Europe, for example, has risen around 16% this year – we closed our tactical overweight in European equities towards the end of May. After the sparkling catch-up race, "signs of fatigue" were apparent in our view.

This prompted us to pursue profit-taking to benefit the liquidity ratio. However, if the European equity market suffers a setback, we could certainly raise this equity ratio once again.



"Reduction in the gold ratio."

Gold has not been one of the best-performing asset classes in the 2021 investment year to date, losing around 12% by the time it bottomed out in March of this year. Last year the yellow precious metal gained around 25%. After testing the low again, the gold price started to recover. The reasons for the price gains were burgeoning inflationary worries and the associated negative real interest rates as well as the renewed weakness of the US dollar. Geopolitical tensions as well as turbulence in cryptocurrencies also helped. As the strong economic upturn is likely to prompt discussions amongst central bankers in the coming months about the right time to "taper", i.e. to start reducing the level of bond purchases, we have decided to trim the tactical overweight to a neutral ratio. We are holding on to our gold mines position, which we have kept in homoeopathic doses. We were able to raise this disproportionately as the gold price posted gains.

Gold price over twelve months

In overall terms, the past month was marked by progress on the vaccination front, declining coronavirus infection rates in industrialised countries and a brighter economic outlook. The Swiss Market Index (SMI) and the German Share Index (DAX), for example, reached new record highs. In Switzerland, it was mainly cyclically sensitive stocks, such as the luxury goods manufacturers Swatch and Richemont, that lifted the SMI to a new record high.

"Equity markets continue their unprecedented rise since the last spring's coronavirus crash."

Politics

The encounter between the American President Ronald Reagan and the General Secretary of the Communist Party of the Soviet Union Mikhail Gorbachev, who met for the first time in Geneva in 1985, was a historic moment. They discussed nuclear arms reduction and a number of bilateral issues. The meeting brought a climatic shift in the relationship between East and West. US President Joe Biden and his Russian counterpart Vladimir Putin are now expected to meet in Geneva in mid-June. Tensions between Washington and Moscow have increased significantly in recent months and the meeting is unlikely to fall short of issues to discuss. Putin has challenged the United States with a build-up of troops on the border with Ukraine. For its part, the USA has imposed sanctions on Russia. The US cited a hacker attack as the reason, along with interference in the November 2020 presidential election and accused Russia of offering bounties on American soldiers in Afghanistan. Russia responded with countermeasures. When a cyber-attack crippled the most important oil pipeline in the US a fortnight ago, the issue took on a new urgency.

"Biden and Putin set to meet in Geneva in mid-June."

Economy

The trigger for short-term global stockmarket sentiment at the beginning of May was the much stronger than expected uptick in US inflation. US annual inflation jumped from 2.6% to reach 4.2%, the highest level since 2008. The less volatile core rate (excluding energy and food prices) also almost doubled to 3.0%, up from 1.6% the previous month. The discussion as to whether this is merely a temporary inflationary spike or whether inflation will be permanently higher is likely to occupy financial markets for some time to come. Recent remarks by Fed officials were reassuring in that they reiterated that the rise in inflation largely reflected temporary factors and was transitory in nature, and that the Federal Reserve could therefore continue to exercise patience with its monetary policy.

"US inflation climbed to 4.2%, the highest figure recorded since 2008."

Considerable importance will be attached to the next meeting of the US Federal Reserve on 16 and 17 June, when, in addition to the key interest rate projections of the committee members, a new update on growth and inflation forecasts is due. It is almost certain that the first rate hike will be pushed forward from 2024 to 2023. All it takes is three Fed members to change their opinions. In our view, however, the Fed is likely to stick to its medium-term inflation forecasts. Otherwise its argument that the spike in inflation is only transitory in nature would lose much of its credibility.

"All eyes are on the next Fed meeting on 16 and 17 June."

Strong price increases in the categories of goods and services that are in high demand due to the reopening of the economy or where supply bottlenecks have created shortages are striking. The price index for used cars increased 10% in month-on-month terms, the strongest monthly hike since data records began in 1953. The increase in the price of used cars therefore accounts for more than one third of the total rise in consumer prices. Alongside the index for used cars, price indices for airline tickets (+10.2%) and hotel accommodation (+7.6%) were amongst the categories with the greatest impact on the CPI.

"The price index for used cars increased 10% in month-on-month terms."

Equity markets

Quarterly figures reported by US and European companies have shown encouraging business trends for the first quarter of 2021. In the US, the positive earnings surprise was twice as high as the figure analysts had been expecting. Positive business trends in sales and earnings are also evident in Europe. In the United States, profit margins have been expanding again, which is a positive development given rising input costs. This is consequently having an impact on adjustments to earnings expectations for the full year 2021. Analysts were too optimistic at the start of the year in historical average terms.

"Positive corporate figures from the US and Europe."

They then had to revise their estimates downwards. This time it is the other way round, namely earnings estimates are having to be revised upwards. In particular, this applies to cyclical sectors from the lower-rated "value" segment. For this reason, provided the global economic recovery continues, historically cheap "value" stocks could outperform higher valued "growth" stocks, which have a high proportion of anticipated earnings projected into the more distant future. This is likely to be the case especially in the event of significantly rising US market interest rates, as the discount factor of higher interest rates has a greater impact on these so-called "long duration/growth" stocks.

Bond markets

It can currently be assumed that the trend will be towards higher inflation – at least over the coming months. This means bonds with a long duration and low yield are particularly susceptible to price corrections. The interest rate spreads of corporate bonds over government bonds have widened significantly in recent months, both for "investment grade" and for "high yield" bonds. This makes bonds relatively expensive in terms of valuation, or in other words, argued from a historical perspective, not overly attractive. The vulnerability of this asset class to rising inflation figures means it makes sense to maintain the underweight in bonds.

"Underweighting for bonds remains commensurate."

Commodities

In the current year, crude oil has the edge over gold. At the end of May, a barrel of WTI was 37% higher than at the beginning of the year, while the gold price posted gains of only 0.50%. Last year, the picture was exactly the other way around. The big question here is how long the supply cuts imposed by oil-producing countries will last in the face of improving global oil demand. Due to the upward economic trend, we believe oil prices have further upside potential.

"Crude oil has the edge over gold in 2021."

As mentioned at the outset, we have taken advantage of the recent strength in the gold price and reduced our tactical overweight to a neutral ratio. We see grounds for the upward price trend in burgeoning inflation worries, the weakness of the US dollar, geopolitical tensions and the turbulence surrounding cryptocurrencies. The decision to reduce this to the neutral radio seemed opportune to us, after gold advanced 25% last year and is slightly up this year – with the price around -12% YtD in March – as at the end of May. Essentially, nothing has changed in our view that we still consider gold to be a fixed portfolio component in our managed portfolios. We are holding on to

"Reduction in the gold ratio."

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Currencies

There have been some sizeable currency fluctuations in recent months. This means that both the euro relative to the US currency and the US dollar relative to the Swiss franc, as well as British pound, have been showing erratic movements, in some cases without establishing sustainable trends. As capital market interest rates are rising again in America as well as in Europe and the positive economic development is continuing, currency fluctuations in the range of five percent cannot be ruled out in the coming months. For this reason, we have neutrally weighted our most important currencies.

"Recent sizeable currency fluctuations in major currency pairs."

Market overview 31 May 2021

Stock indices (in local currency)	Current	1 Mt (%)	YtD (%)
SMI	11,363.45	3.30	9.09
SPI	14,668.99	3.45	10.06
Euro Stoxx 50	4,039.46	2.53	15.78
Dow Jones	34,529.45	2.21	13.76
S&P 500	4,204.11	0.70	12.61
Nasdaq	13,748.74	-1.44	6.98
Nikkei 225	28,860.08	0.16	5.90
MSCI Emerging Countries	1,376.21	2.34	7.25
Commodities			
Gold (USD/fine ounce)	1,906.87	7.79	0.45
WTI oil (USD/barrel)	66.32	4.66	36.69
Bond markets			
US Treasury Bonds 10Y (USD)	1.59	-0.03	0.68
Swiss Eidgenossen 10Y (CHF)	-0.16	0.04	0.39
German Bundesanleihen 10Y (EUR)	-0.19	0.02	0.38
Currencies			
EUR/CHF	1.10	0.11	1.65
USD/CHF	0.90	-1.56	1.55
EUR/USD	1.22	1.72	0.09
GBP/CHF	1.28	1.27	5.61
JPY/CHF	0.82	-1.80	-4.27
JPY/USD	0.01	-0.24	-5.71

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