Your wealth is our priority.

FACTUM

Investment Report

June 2022

Factum AG
Current positioning:

Portfolio balanced	Neutral	Current	Change*
Liquidity	3%	5%	↘ (-1%)
Bonds	35%	31%	→
Shares	47%	47%	→
Alternative investments	15%	17%	↗(+1%)

**Changes since the last Investment Report (04 May 2022) & current assessment.*

Strategy overview

With high inflation, investors weaning themselves off cheap money from central banks, the war in Ukraine and the increasing fear of a potential recession, the current market environment is and remains extremely challenging. Global growth is facing headwinds and growth forecasts are being revised downwards. Within this context, special mention should be made of China, where the combination of a downturn in the real estate market and an uncompromising zero-covid policy is all-pervasive. Attention is currently very much on inflation and its impact on consumption. Signs of a slowdown are apparent, but not yet a major cause for concern.

"The current market environment remains extremely challenging."

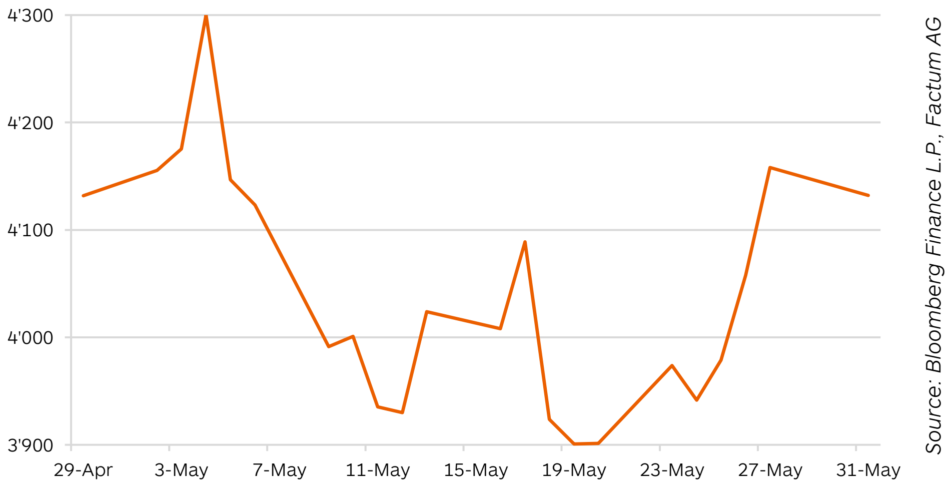
The market environment is likely to remain challenging, with equities as well as bonds having performed disappointingly over the course of the current year. For example, a portfolio with the balanced strategy has got off to its worst start in thirty years. We think it important to reiterate that it is tremendously important to stay invested and to keep a cool head. Broad-based market rallies, such as the one that occurred in mid-May, are a clear reminder of why it is essential to stay invested. From a historical perspective,

"Keep calm and carry on."

FACTUM

days with the strongest market performance are often close to days with the weakest. Volatility is currently elevated and is likely to remain so for the foreseeable future. In May of this year alone, US equities – "large caps" – fluctuated by around 10%.

US equities – Large Caps – May 2022



Commodities have not been of particular interest to anyone over the past ten years or so. Investors favoured growth stocks instead. Commodity prices fell and commodity companies did not invest heavily in new production capacity. Politicians and the "mainstream media" have also been talking fossil fuels down, which is another reason why capital investments were cut. As a result, we are currently seeing structural shortages in a range of commodities such as oil, gas, metals and agricultural goods. The shortage is pushing prices higher. This situation has been further exacerbated by the war in Ukraine.

"Commodities have not exactly been popular amongst investors over the past decade."

Added to this is the fact that in recent years the West has been talking up the transition away from fossil fuels – without considering that the decarbonisation and electrification of the economy will require vast quantities of copper, aluminium, nickel, lithium, silver, cobalt and other raw materials. The supply of these raw materials is relatively inelastic due to limited extraction capacities. The shortage is therefore not likely to be merely temporary and will not disappear quickly. Instead, it will shape the years ahead and push prices higher.

"The shortage is unlikely to be merely temporary and will push prices higher in the coming years."

FACTUM

As a consequence, towards the end of May we took advantage of the slide in the price of industrial metals and built up homeopathic dosages in commodities in the income, balanced and growth strategies. We implemented the ratio through an exchange-traded index product on the Wisdom Tree Energy Transition Metals Index, which invests in the following metals (target weightings): Copper (22.2%), nickel (19.4%), aluminium (16.7%), silver (13.9%), zinc (11.1%), tin (8.3%), platinum (5.6%) and gold (2.8%).

"As a consequence, we built up a position in commodities towards the end of May."

Politics

Many of the problems afflicting China at present are entirely home-made, and Xi Jinping has only himself to blame. Mistakes in economic policy, foreign policy and currently in the fight against the pandemic are undeniable. In our view, the current downturn in the Chinese economy is only partly due to the pandemic. Numerous regulatory interventions in economic activities have also been having a major negative impact, particularly on China's tech corporations. In foreign policy terms, China is increasingly isolated and its open loyalty to Vladimir Putin is also increasingly prompting Europe to distance itself. The 20th Party Congress of the Communist Party (CP) will be held in November of this year. New appointments to senior positions will be made on this occasion. Xi Jinping is also planning to get himself elected to a third term in office. If China's economic growth continues to splutter, or even dips further, if the pandemic gets out of control and the country is increasingly isolated in foreign policy terms because of developments in Ukraine and its proximity to Putin, then things are likely to get increasingly uncomfortable in the Middle Kingdom.

"Xi Jinping's mistakes have the potential to accumulate into a toxic mix."

Economy

In the USA, the rise in mortgage interest rates is increasingly having a negative impact on the real estate sector. Sales of single-family homes – both new and existing properties – slowed significantly in April, as did construction activity. Meanwhile, US households continue to consume, despite the fact that incomes are not keeping pace. This meant the savings rate fell in April to its lowest level since 2008. As expected, households are therefore drawing on their substantial savings made over the past two years, thereby smoothing their consumption. Meanwhile, price data from income and expenditure statistics provide grounds for optimism that inflation has passed its peak. Core inflation – the Fed's preferred inflation metric – declined for the second straight month, falling from 5.2% to reach 4.9%.

"Core US inflation declined to 4.9% in April, down from 5.2% in March and 5.3% in February."

FACTUM

Equity markets

A look at the way prices have developed since the start of the year shows that US share indices – especially the US technology exchange – suffered the sharpest losses. Stockmarkets in the UK, Canada and Australia, inter alia, performed more robustly during this period, as they are better able to cope with global inflation or can even benefit from it due to their sector structure. The key question for the outlook for global stockmarkets going forward is probably whether central banks will manage to procure soft landings for their economies. During recessionary periods, the US stockmarket has historically corrected by a median of around 24% from peak to trough. In the current phase, share prices in the USA have declined by around 20%, which means that a recession has not yet been factored into prices, although a certain degree of economic adversity has indeed been anticipated.

"The US equity market experienced the sharpest correction since the start of year".

Bond markets

The days of negative interest rates are drawing to a close in Europe, after around eight years. At her last meeting, ECB President Christine Lagarde announced that she would initiate the interest rate trend turnaround, something that has long been done in America and the UK. With Eurozone inflation at 8.1 percent, the highest level in 40 years, the ECB is aiming to hike its key interest rate by 25 basis points at its next meeting on 21 July. The next hike is likely to be approved in September. This could even be as much as 50 basis points, depending on the inflation and economic situation. There are currently many signs that the ECB will have to raise its key interest rate to a level of 1.00% to 1.50% to counter the strong inflationary pressures. This is considered the neutral rate by monetary authorities.

"As expected, ECB initiates the interest rate trend turnaround."

Commodities

Notwithstanding a sharp rise in real US dollar interest rates, a significantly higher US dollar and opportunity costs trending north, the gold price has remained relatively stable. Geopolitical uncertainties – including the war in Ukraine, a possible NATO expansion with Finland and Sweden – continue to support gold as a "safe haven". In our view, neither positive nor negative arguments currently have the upper hand. For this reason, we continue to regard a neutral gold ratio as justified.

"We remain of the view that a neutral gold rate is justified."

FACTUM

Currencies

The US dollar gained around 6% against the euro between the beginning of the year and the end of May. The dominant factor here is the tightening of interest rates initiated by the Fed. The Fed usually raises rates in 25 basis point increments. For the present, however, there will be 50 basis point hikes, and this has caused interest rate expectations to rise. For example, the yield gap between the United States and Germany on two-year government bonds also widened significantly, which had the effect of supporting the US currency. In future, attention will probably focus increasingly on economic performance as a consequence of restrictive monetary policies. If rising interest rates weaken the US economy, the upward trend of the US dollar would definitely grind to a halt. In addition, it will be difficult for the US dollar to maintain its strength if the ECB tightens more rapidly than had previously been assumed.

"How long will the US currency remain robust?"

FACTUM

Market overview 31 May 2022

Stock indices (in local currency)	Current	1 Mt (%)	YtD (%)
SMI	11,611.38	-4.05	-7.37
SPI	14,918.98	-4.38	-9.28
Euro Stoxx 50	3,789.21	1.34	-9.47
Dow Jones	32,990.12	0.33	-8.43
S&P 500	4,132.15	0.18	-12.76
Nasdaq	12,081.39	-1.93	-22.52
Nikkei 225	27,279.80	1.61	-4.32
MSCI Emerging Countries	1,077.67	0.46	-11.72
Commodities			
Gold (USD/fine ounce)	1,837.35	-3.14	0.45
WTI oil (USD/barrel)	114.67	9.53	52.47
Bond markets			
US Treasury Bonds 10Y (USD)	2.84	-0.09	1.33
Swiss Eidgenossen 10Y (CHF)	0.89	0.01	1.02
German Bundesanleihen 10Y (EUR)	1.12	0.18	1.30
Currencies			
EUR/CHF	1.03	0.34	-0.76
USD/CHF	0.96	-1.27	5.10
EUR/USD	1.07	1.79	-5.59
GBP/CHF	1.21	-1.17	-1.96
JPY/CHF	0.75	-0.48	-5.91
JPY/USD	0.01	0.83	-10.56

Author: Christof Wille, Dipl. Private Banking Expert NDS
Editorial deadline: 14 June 2022