Investment Report

June 2023

Factum AG
Current positioning:

Portfolio balanced	Neutral	Current	Change*
Liquidity	3%	4%	→
Bonds	35%	35%	→
Equities	47%	44%	→
Alternative investments	15%	17%	→

**Changes since the last Investment Report (4 May 2023) & current assessment.*

Strategy overview

Global financial markets seem to have entered a calmer phase in the second quarter as opposed to the end of the first quarter, where faltering US regional banks caused plenty of turbulence. Is everything done and dusted or is this the calm before the storm? Inflation is on the retreat and monetary policy is starting to show signs of easing soon. On the other hand, it is clear that the global economy is in a significant slowdown. Inverse yield curves in America and Germany are not the only indicators of this; global economic growth data also highlight this assessment. Should the optimistic consensus forecasts for corporate earnings growth and the downward trend in profit margins turn out to be too high, we see significant downside potential, especially for global equity markets. Global equities have gained around 9% in the current year. We regard it as opportune to exercise a certain degree of caution and to focus on quality and stability. With this in mind, we consider a slight underweighting of the equity quota in the asset management mandates we administer to be justified.

"We consider a cautious positioning to be adequate at the moment."

FACTUM

Politics

The agreement on raising the US debt ceiling envisages a two-year increase in the ceiling, while capping spending during this period. The US was in danger of running out of money at the beginning of June because the previous Congressional default had capped public debt at around USD 31 trillion. The international financial markets received the agreement favourably. Unfortunately, this annoying topic raises its ugly head at regular intervals, which keeps the markets on tenterhooks. For example, in July 2011, just two days before the deadline, an agreement was reached but the damage had already been done. At the time, the broad S&P500 lost 17% of its value, bonds and gold prices soared and the US lost its AAA rating from Standard & Poor's.

"Agreement reached in negotiations on US debt ceiling."

The agreement on raising the debt ceiling is certainly something positive. In the medium term, however, the agreement will not significantly improve America's long-term disastrous fiscal course. The national debt has increased significantly since the financial crisis of 2008, and after the Covid pandemic, government spending and budget deficits seem to have got completely out of control. In any case, from a long-term perspective, the agreement will only marginally curb excessive government spending, as it only applies to about one-third of the federal budget. The trend of rising costs for compulsory expenditures such as social security and Medicare, as well as interest on debt, will remain untouched.

"A lasting solution to the debt issue has not been reached."

Economy

In the fourth quarter of last year, the world's largest economy grew at an annualised rate of 2.6% compared to the previous quarter. In the first quarter of 2023, US GDP growth was still 1.1%, with the consensus at 2%, despite an increase in consumption. Lower investment and destocking were the main reasons for the slowdown. In view of the tightening of credit conditions by US banks in the meantime, the latter seems appropriate. Due to the sharpest rise in interest rates in the US in 40 years, consumption is expected to weaken in the coming quarters, which should have a negative impact on economic growth.

"The clouds are darkening on the economic front."

In the Eurozone, the mild winter and the absence of an energy crisis in the first quarter made it possible to avoid the widely expected recession. This explains the positive price gains of European shares. The broad Eurostoxx 50, for example, gained around 14% in value in the current year (as at the end of May). However, a closer look at the economic data for the first quarter reveals a very mixed picture. Consumption growth slowed, while exports benefited from the demand from China. All in all, the significant rise in key interest

"Due to the mild winter, a recession was avoided in the Eurozone in the first quarter of 2023."

rates in the Eurozone to the levels seen in 2008 is likely to lead to an economic slowdown in the coming quarters.

Equity markets

"What's next for corporate earnings reports?"

From a relative perspective, corporate results in the first quarter of 2023 were better than expected, also thanks to high profit margins. Currency movements have supported corporate results so far, but the euro has strengthened in 2023, which is likely to slow down future profit growth of European companies. In the US, profit margins are inflated from a historical perspective. Given high wage growth and higher financing costs with higher interest rates, profit margins will hardly be able to remain as high in the coming quarters. Incidentally, this is also true in the Eurozone. In addition, the rise in key interest rates to the levels in 2008, together with tighter bank lending conditions in both the US and the Eurozone, are now putting pressure on credit growth. Later in 2023, we are likely to see a reduction in both global economic growth and corporate earnings due to the tightening of credit conditions. Given that the current share prices already include plenty of interest rate reduction fantasy, we do not consider an overly risky equity positioning to be appropriate.

Bond markets

"Can we expect interest rate cuts in the USA in the second half of the year?"

Bond markets are already pricing in US interest rate cuts for the second half of the year, but this expectation may prove too optimistic as long as inflation remains historically above average. While overall inflation has eased due to lower energy prices, core inflation remains stubborn. If the economic slowdown that has begun is sustained, credit surcharges could increase again. Seen from a historical perspective, bonds with a low credit quality, i.e. so-called "high-yield bonds", are more vulnerable than "investment-grade bonds" in the event of an economic slowdown.

Commodities

"Despite short-term price losses, the long-term upward trend in the gold price is likely to continue."

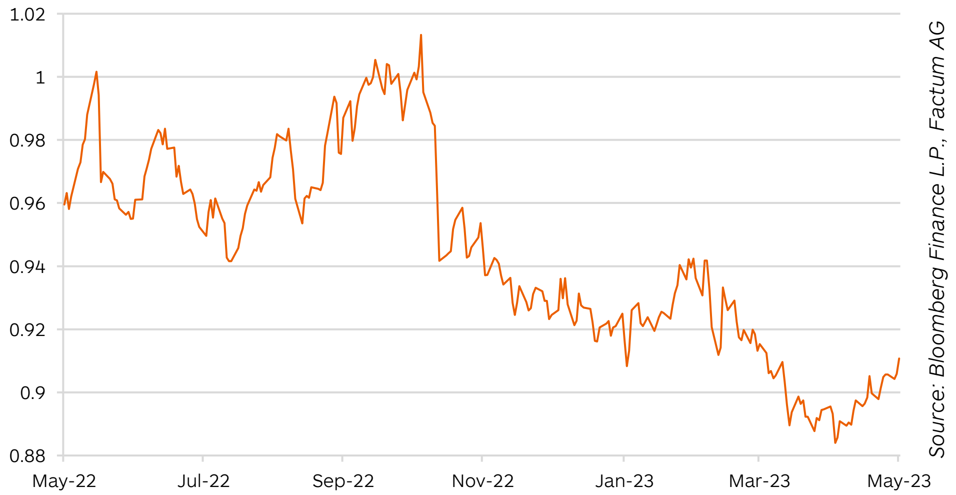
In the short term, due to a number of countervailing factors, commodities are likely to remain volatile. The price of industrial metals and energy commodities could become cheaper as the economy cools down. On the other hand, increasing risks of the "El Nino" weather phenomenon (volatile weather due to a change in the temperature of the sea water in the Pacific) should provide support for agricultural and energy commodities. After the strong positive price advances in the current year, gold lost about 5% of its value from the top of around USD 2,050 per troy ounce. In view of the massive increase in recent years in the geopolitical tensions between China, the USA and Russia, the long-term upward trend is likely to continue after a period of possible short-term profit-taking.

Currencies

After the euro gained strength vis-à-vis the Swiss franc from the end of December to the beginning of March, there has been a trend of the euro weakening or the franc strengthening since March. The strength of the Swiss franc since March manifests itself even more clearly against the US dollar. Here, the reason is probably the US interest rate cuts that the market consensus anticipates for the second half of the year. If this proves to be wrong, the US dollar, which has lost more than 10% of its value since last autumn, could recover somewhat. However, we will have to wait for the economic and inflation data, as the Fed has recently confirmed several times that it will be guided by the economic data. In the longer term, a strengthening of the franc is to be expected due to the complex geopolitical uncertainties.

"The strength of the Swiss franc is clearly evident in relation to the US dollar".

USD/CHF over twelve months



Market overview 31 May 2023

Equity indices (in local currency)	Curent	1 Mt (%)	YtD (%)
SMI	11,217.89	-1.62	7.66
SPI	14,788.51	-1.89	7.67
Euro Stoxx 50	4,218.04	-1.86	14.20
Dow Jones	32,908.27	-3.17	0.25
S&P 500	4,179.83	0.43	9.64
Nasdaq	12,935.29	5.93	24.07
Nikkei 225	30,887.88	7.04	19.61
Emerging markets	958.53	-1.66	1.15
Commodities			
Gold (USD/fine ounce)	1,962.73	-1.37	7.60
WTI oil (USD/barrel)	68.09	-11.32	-15.16
Bond markets (change in basis points)			
US Treasury Bonds 10Y (USD)	3.64	0.22	-0.23
Swiss Eidgenossen 10Y (CHF)	0.89	-0.16	-0.73
German Bundesanleihen 10Y (EUR)	2.28	-0.03	-0.29
Currencies			
EUR/CHF	0.97	-1.22	-1.63
USD/CHF	0.91	1.80	-1.49
EUR/USD	1.07	-2.99	-0.15
GBP/CHF	1.13	0.79	1.28
JPY/CHF	0.65	-0.44	-7.40
JPY/USD	0.01	-2.18	-5.90

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