Investment Report

March 2021

Factum AG
Current positioning:

Portfolio balanced	Neutral	Current	Change*
Liquidity	3%	6%	↘
Bonds	37%	29%	→
Shares	45%	48%	↗
Alternative investments	15%	17%	→

**Changes since the last Investment Report (12 February 2021) & current assessment.*

Strategy overview

On international equity markets, significant price losses materialised in the final week of February. For example, the world equity index dropped 2.7% during this period. Equity markets in emerging countries (-5.7%) and the US technology exchange NASDAQ (-4.69%) suffered significantly more. They had previously recorded above-average price gains, however. The reason for the slide in equity prices is not difficult to identify. The rapid rise in bond market yields has unsettled investors. For example, the closely-watched interest rate for 10-year US government bonds climbed from 0.90% to 1.60% and is now at its highest level since February 2020. While rising inflation expectations were the main reason for the hike in yields during the preceding weeks, real yields have now increased. In fact, however, rising real yields should be seen as a positive sign of a more optimistic assessment of the economic outlook. This has come about as a result of the retreating pandemic, the imminent economic rebound and the remarkably strong US fiscal stimulus.

"Global equity markets: Considerable headwinds as a result of the rise in yields at the end of February."

FACTUM

As the above chart indicates, the yield curve has "steepened", triggering a sector rotation that subsequently led to an unravelling of speculative positions. We took advantage of the price setbacks triggered by the increasing jittery environment to raise our equity ratio to a "marked" overweight, although the decidedly positive sentiment towards risky investments made us somewhat hesitant. We raised the equity ratio at the expense of liquidity. In our "core mandates", with the exception of the reference currency US dollar (where we increased the world equity ratio), we strengthened the equity ratio in the domestic market. In our "ETF Mandates", we have increased the risk exposure in the "Income" profile for emerging market bonds and in the "Balanced" profile for emerging market equities, thus bringing the positioning closer into line with that of our "Core Mandates".

"We have taken advantage of the market jitters and raised our equity weighting to a significant overweight."

Politics

President Biden has often used the slogan "America is back" of late. It is perhaps worth asking if the USA had ever really been away. Of course not, even under Donald Trump, the Americans did not retreat to their continental redoubt. They left their mark on world politics regardless, albeit sometimes brusquely and in an unconventional way. With his slogan, Biden is keen to signal that America deserves to be trusted again as an alliance partner. Viewing the situation from a different angle, the US really is "back". Examples of this are its rejoining the Paris Climate Agreement, the abandonment of the announced withdrawal from the World Health Organisation and the return to the UN Human Rights Council. The billions earmarked for the Covax organisation, which has been set up to provide fair access to Corona vaccines around the world, also underline the Biden administration's desire to demonstrate solidarity and leadership. The rapid series of policy measures are first

"Is America really back?"

and foremost gestures, no doubt important, but ultimately political no-brainers. So far, Biden has steered well clear of real hot potato issues, such as future US dealings with China or Iran.

When it comes to Middle East policy, there have always been conflicts between Washington and Arab US allies. What is new, however, is the fact that a US government has now accused the ruler of a friendly state of being the mastermind behind a brutal political murder. This concerns the murder of dissident Jamal Khashoggi and the role played by Saudi Crown Prince Mohammed bin Salman. This could be a turning point for the relationship between America and the entire region. Why is America suddenly beginning to call the shots? One answer is likely to be oil. Fracking has transformed the USA into one of the world's leading oil producers and it is no longer dependent on Saudi Arabia. In 2019 the USA imported merely three percent of the oil it needed – the figure in 2005 was 60 percent. As a result of climate change, limited oil reserves and the emergence of alternative energy sources, oil is unlikely ever again to play the dominant role that it did in the past. This is why the US is now taking a more assertive approach to its relationship with Saudi Arabia. But what is Washington trying to achieve with this new hard line approach? There has not been a clear answer to this question to date. Biden's policy seems to lack a substantive core. Sanctions have been imposed on 80 Saudi government officials by the US for their role in the murder of Khashoggi. Mohammed bin Salman is not on the sanctions list, however. Biden and his administration have set the bar very high in terms of moral standards; the next four years will show whether his administration manages to live up to them.

"A turning point in the US-Saudi relationship?"

Economy

According to preliminary data released by Japan's Office of Statistics, industrial production in Japan rose 4.2% in January in month-on-month terms. This figure is well above market expectations. Compared to the decline seen towards the end of the year, momentum within the industrial sector has picked up significantly, notwithstanding the lockdown measures imposed by the government. At the same time, forecasts issued by companies point to a slight decline in production in February and March. This could prove to be more pronounced, as the global shortage of semiconductors will limit car production over the coming months. These short-term challenges aside, the industrial sector will continue to recover this year. This is also suggested by the Japanese Purchasing Managers' Index, which recorded a rise in new orders in February.

"The Japanese economy posted a strong start to the new year."

Japanese retail sales, by contrast, declined 0.5% at the beginning of the year relative to the previous month. This means sales figures came in markedly ahead of expectations; a monthly decline of 1.2% had been forecast. Together with the negative figures for November (-2%) and December (-0.80%), this is now the third decline in succession. However, the main culprit is the fall in the price of petrol. Excluding the negative effect of fuel prices, sales in January were 3.8% higher than the previous month and slightly above the level recorded in the previous year. In March, against the backdrop of low new infection rates, the nationwide lockdown is expected to be eased, which should also boost private consumption once again.

"Moderate decline in Japanese retail sales."

According to preliminary data, the Indian economy grew 0.40% relative to the same quarter of the previous year. This came after GDP fell 7.3% in Q3 and as much as 24.4% in Q2 in year-on-year terms, due to the slow lifting of coronavirus restrictions. This means that the Indian economy has been able to make up for the marked slump in Q2 with unexpectedly strong growth during the second half of the year. Government spending continued to decline during the final quarter (-1.1%), but did not shrink as much as in the third quarter. Private consumption also remained short of the previous year's level (-2.4%), although to a much lesser extent. Gross capital investment came as something of a surprise to market-watchers, growing by 2.6% for the first time in 2020. The picture for foreign trade was less rosy. Exports shrank more strongly again (-4.6%), while the slide in imports eased (-4.6%). At the end of the day, foreign trade made a negative contribution to growth, after having been positive during the two previous quarters.

"The Indian economy is back above the previous year's level."

Equity markets

Just how quickly and abruptly increased volatility can materialise on stockmarkets was once again made amply evident to us at the end of February. We discussed the main reason – adverse conditions due to the rise in yields – at the beginning of this Investment Report. We therefore still see no reason to deviate from our confident view of the outlook for equity markets, all the more so since, according to our forecasts, the rise in yields is likely to ease significantly in the coming weeks and months or could even move in the opposite direction. In the interim, the US yield curve has become extraordinarily steep. In the absence of a fundamental shift in monetary policy, it is unlikely to become significantly steeper. In our view, this is not particularly likely. At least not the way the economy is developing at present. A string of high-profile US Federal Reserve officials, including Chairman Jerome Powell, commented on US monetary policy in the last week of February. The tenor of their comments was clear and unanimous: The US economy still has a long

"Sudden shift in stockmarket sentiment at the end of February."

way to go to reach full employment and to hit the inflation target. All Fed officials underscored the fact that the US economy would therefore need the support of monetary policy for some time to come. A reduction in the volume of bond purchases (tapering) or even a tightening of the key interest rate is therefore a long way off, which in our view clearly speaks in favour of equities, which is why we consequently raised our equity ratio in the past month.

Bond markets

"US Federal Reserve confirms current monetary policy stance."

The US Federal Reserve takes the view that the surge in inflation will be short-lived and has indicated that no change in monetary policy is therefore required. According to the published minutes of the Fed meeting in January, the monetary watchdogs are broadly in agreement that there is no need to change anything on the interest rate front and to continue the bond purchases to support the recovery. The Fed was much more upbeat about the economic outlook thanks to the expected boost from the government's stimulus programmes and the vaccine roll-out. Nevertheless, at the January meeting they took the view that they were far from achieving their goals of full employment and price stability. More interesting than the reviews, however, will be the next Fed meeting in March. That is when the monetary watchdogs will have to include the new fiscal measures in their economic projections. In view of the US government's substantial stimulus package and a strong recovery, discussions about tapering the bond purchase programme could then quickly rise up the agenda.

Commodities

"China & America's economic situation is boosting commodities as an asset class."

With the exception of gold, the commodities asset class has benefited significantly from two factors since the start of the year. It is certainly the case that these could persist for longer. On the one hand, China's economy remains the strongest of all countries at present. On the other hand, economic growth in America is proving stronger than had originally been forecast, and could pick up even more thanks to the economic stimulus package. This means global demand for cyclically sensitive commodities, from oil to industrial metals, is rising faster than supply. Many commodities are consequently benefiting from economic growth and inflation expectations.

"The price of gold is currently stuck in a delicate situation."

The price of gold is currently stuck in a delicate situation. The precious metal is struggling around the USD 1,700 level. Since the beginning of the year, the gold price has lost about 10% in value. Since hitting the record high of USD 2,063 last August it has lost about 17.5%. In the medium term, a downward trend has therefore been established and the price is well below the 200-day

moving average in the region of USD 1,860. From a technical perspective, attention is currently on the USD 1,670 mark. The price of the precious metal rose almost 80% between August 2018 and August 2020. Despite easing in the wake of the record high, it nevertheless posted a 25% increase in value last year. However there is more behind the current weak phase than a technical price consolidation.

"Little demand for a safe haven."

Gold is currently not so much in demand in its function as a "safe haven". In anticipation of a rapid recovery of the economy from its historic downturn last year, stockmarkets have risen significantly and risk appetite seems to know no bounds. Easing geopolitical risks have also contributed to gold's diminished importance as a safe haven. The election of Joe Biden has reduced unpredictability, and the approach towards China has become much more moderate. The rise in nominal and real US bond yields (10-year US Treasuries from 0.90% to 1.60%) undermined the attractiveness of gold and caused the US dollar to appreciate accordingly.

"It is worth perusing the history books here."

As explained above, there is not much to suggest a significantly higher gold price at the moment. But if one takes a look at history, there have been sharp price increases on numerous occasions. In January 1971 the price per ounce was USD 38, and by January 1980 it had risen to USD 850. During this period, the gold price rose by more than 2,200%. This was triggered by the collapse of the US dollar and the soaring inflation in the United States between 1977 and 1981. There was likewise a gold rally between 1999 and 2011, with the price rising by 760% during this period. Admittedly, these are

FACTUM

exorbitant price increases. However, the fact that the US currency is overvalued in purchasing power parity terms and that a further rise in interest rates is anything but set in stone should give the gold price upside potential once again in the medium term. In addition, geopolitical tensions are liable to arise without forewarning and can be difficult to predict. We remain firmly convinced that gold should be an established portfolio component in a broadly diversified portfolio, and are therefore retaining the investment.

Currencies

The EUR/CHF exchange rate rose above 1.10 for the first time since the end of 2019; at the beginning of March, one euro even cost CHF 1.1125. The US dollar also gained against the Swiss franc to reach 0.9295 at the beginning of March. These exchange rate developments have come as something of a surprise to us. The EUR/CHF rate of 1.08 moved rapidly to above 1.11 in barely a month. This is likely to have been in part due to the fact that many automatic transactions were triggered once key levels were met, such as the 1.10 mark. In addition, there are factors such as the better-than-expected economic data coming out of Germany. For us, what is striking is the aspect that, in addition to the Swiss franc, the Swiss stockmarket (SMI) also performed more weakly at the end of February than other stockmarket indices from a relative perspective. This could be due to reallocations by major investors who have made defensive heavyweights such as Nestlé, Roche or Novartis into riskier cyclical stocks. In addition, the risk assessment for the Eurozone has improved, now that Mario Draghi has been appointed as Italian prime minister. This is likely to have reduced upward pressures on the Swiss franc against the European single currency, the euro. With such rapid movements in the foreign exchange market, it is extremely difficult to estimate how long they are likely to last. We think it unlikely, however, that the weakness of the Swiss franc will last for long.

"Significant movements on the currency front."

Market overview 26 February 2021

Stock indices (in local currency)	Current	1 Mt (%)	YtD (%)
SMI	10,522.22	-0.65	-1.69
SPI	13,134.38	-0.44	-1.45
Euro Stoxx 50	3,636.44	4.57	2.65
Dow Jones	30,932.37	3.43	1.41
S&P 500	3,811.15	2.76	1.71
Nasdaq	13,192.35	1.01	2.47
Nikkei 225	28,966.01	4.75	5.59
MSCI Emerging Countries	1,339.26	0.77	3.78
Commodities			
Gold (USD/fine ounce)	1,734.04	-6.15	-8.66
WTI oil (USD/barrel)	61.50	17.82	26.75
Bond markets			
US Treasury Bonds 10Y (USD)	1.40	0.34	0.49
Swiss Eidgenossen 10Y (CHF)	-0.19	0.23	0.36
German Bundesanleihen 10Y (EUR)	-0.26	0.26	0.31
Currencies			
EUR/CHF	1.10	1.49	1.47
USD/CHF	0.91	2.04	2.63
EUR/USD	1.21	-0.50	-1.15
GBP/CHF	1.27	3.66	4.60
JPY/CHF	0.85	0.24	-0.50
JPY/USD	0.01	-1.72	-3.04

Author: Christof Wille, Dipl. Private Banking Expert NDS
Editorial deadline: 5 March 2021

Please do not hesitate to contact us if you have any questions. Factum AG Vermögensverwaltung is a licensed, independent asset management company that is subject to the Liechtenstein Financial Market Authority. It is the exclusive purpose of this publication to inform; it is neither a request nor an offer nor a recommendation to purchase or sell financial instruments or to take any other decisions on investments. It is therefore not a financial analysis in terms of the Marktmissbrauchsgesetz (Act on Market Misuse), either. The information and opinions contained in this publication originate from reliable sources and have been prepared with the utmost diligence. Nevertheless, we exclude any liability for accuracy, completeness and topicality. All information contained and all prices stated in this publication may change at any time without notice. The value of financial instruments may rise or fall. Future performance cannot be deduced from the past development of prices. Under particular market-related or title-specific circumstances, financial instruments can be sold only with delay and the risks that it is subject to. We would like to point out that Factum AG Vermögensverwaltung and its employees are allowed in principle to hold, purchase, or sell the financial instruments mentioned in this document, without however putting clients at any disadvantage whatsoever. This publication and the information contained in it are subject to Liechtenstein law. In the event of any disputes, jurisdiction rests exclusively with the Liechtenstein courts at the legal venue of Vaduz.