Your wealth is our priority.

Investment Report

Mid-March 2022

Factum AG
Current positioning:

Portfolio balanced	Neutral	Current	Change*
Liquidity	3%	8%	↗
Bonds	35%	29%	→
Shares	47%	48%	↘
Alternative investments	15%	15%	→

**Changes since the last Investment Report (9 February 2022) & current assessment.*

Strategy overview

The war in Ukraine is increasing short-term jitters and has created a new starting situation on investment markets. As at mid-March, global equity indices are trading between 10-20% in negative territory. Significantly higher commodity prices with inflation on the march, rising interest rates and gradual rearmament in Europe are now becoming more likely. Until recently, there were hardly any growth risks to be seen. However, the longer the war lasts, the higher the risk that the global economy will be impacted. If one views the war in Ukraine from a historical perspective, armed conflicts tend to have a surprisingly minor impact on investment markets. For example, around one year after the two World Wars, the Cuban Missile Crisis, the Yom Kippur War, the Gulf War and the Iraq War, global stockmarkets were trading higher than at the beginning of the armed conflicts.

"The Ukraine war has created a new starting position."

It is certainly the case that the geopolitical crisis is currently taking place closer to us than other past armed conflicts. Russia's invasion of Ukraine increases the risk of stagflation more than the annexation of Crimea in 2014, that is to say the risk of significantly lower or stagnating economic growth

"Inflation is a thing of the past – now suddenly everyone is talking about stagflation – for the first time since the 1970s."

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coupled with increased inflation, mainly caused by significantly higher energy prices. In the medium to long term, how China positions itself in this conflict will be absolutely crucial. If China clearly comes out on the side of Russia, then Europe will also have to rethink its dealings with China more quickly and on a more lasting basis.

We believe it is important for investors to remain calm, take a medium to long-term perspective and to have a portfolio that can weather the Ukraine crisis and rising US interest rates well. Diversification is and remains trumps. Across regions, sectors and asset classes, investors can minimise their exposure to specific risks related to the Ukraine crisis or other political threats.

"As always in crises, it is important to remain calm and to carefully analyse what has happened."

We have not made any changes to our fundamental positioning. We make a point of diversifying our investments and endeavour to benefit from a range of developments. For example, our gold exposure of around three percent along with alternative investments in general have cushioned losses on the bond and equity side in recent weeks. Our liquidity ratio is currently eight percent, corresponding to a clear overweight. This undoubtedly helps in the current situation, offers protection and makes it possible for us to realise investment opportunities quickly and easily. After an extended "dry spell", our exposure to gold mines, which we sold at the end of February after they had outperformed world equities by around 20% in 2022, has also paid off. In addition, we took advantage of softer share prices during the second week of March, conducted some rebalancing and restored equities to the original tactical ratio, which corresponds to a slight overweight. We did all this through purchases in the domestic market as well as in global equities. Provided the conflict does not intensify further and energy prices do not continue to rocket, we are expecting a friendly economic environment.

"Disposal of our gold mining exposure with an outperformance of around 20% vis-à-vis global equities and rebalancing of our equity ratio in the second week of March."

Politics

With his declaration of Sino-Russian friendship, China's head of state and party leader Xi Jinping has manoeuvred himself into a tricky position. He might feel the effects of this in the run-up to the key party congress in autumn. Beijing's recent pledges of allegiance to Russia are problematic because China needs to maintain smooth relations in particular with the EU and the US. For example, the country is still heavily dependent on technology from the West. Xi Jinping is also likely to be alarmed about the massive sanctions imposed by the West against Putin's regime – not least within the context of a possible future Chinese invasion of Taiwan.

"Xi Jinping is encountering some pushback."

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Economy

The impact of the war in Ukraine on inflation is also considerable. Inflationary pressures were already high before the war in Ukraine, and are now likely to increase still further. In the US, inflation climbed to 7.9% in February, the highest level recorded in over 40 years. In March, the war in Ukraine and the massive increase in commodity prices will stoke inflation even further, when it will most likely exceed the 8% mark. Nevertheless, we still expect the rate of inflation to decline gradually over the further course of the year, not least thanks to favourable underlying effects. How quickly and how strongly, however, depends very much on the extremely volatile development of oil prices.

"Inflation in the US reached 7.9%, the highest level it has been in 40 years."

Higher agricultural commodity prices will also play a role, as well as new supply chain and transport logistics problems brought about by the war and sanctions. Inflation has also recently hit new highs in the Eurozone, in the UK and in many other countries; even in Switzerland, where inflation has risen above the two percent mark for the first time since 2008. Here, too, the end of the line has probably not yet been reached. The ECB has revised its inflation forecast upwards, from 3.2% to 5.1%.

"Inflation has also been soaring in Europe."

Equity markets

Sentiment volatility on stockmarkets is currently exceptionally high. Investors are fluctuating between hope for an easing of tensions and fear of a further escalation in the war in Ukraine. War developments are overshadowing all other relevant news. Even the progress of the coronavirus pandemic, which until recently was the all-enveloping topic, has become of little interest to anyone at the moment. Last week's stockmarket performance, especially in Europe, which is keenly affected by the war in Ukraine due to its geographical proximity to Ukraine on the one hand and its energy dependence on Russia on the other, is a clear demonstration of this shift in attention. Price fluctuations amounting to several percentage points are the order of the day, oscillating up or down depending on the latest news headlines. The inherently defensive stockmarket in Switzerland is holding up relatively well, having eased 9%, followed by the US and Europe which have lost around 12%. As of mid-March, emerging market equities are trading around 14% lower than they were at the start of the year.

"Global equity indices have lost 10 – 20% since the start of the year."

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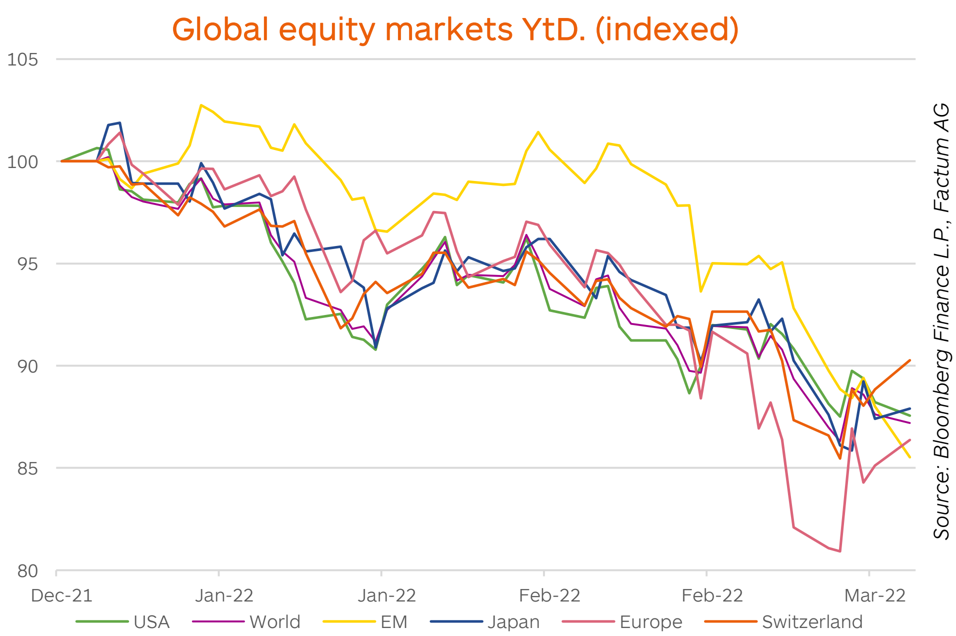


Bond markets

Despite the great uncertainties brought about by the war in Ukraine, the ECB's monetary watchdogs have spoken out in favour of an accelerated tapering of their securities purchases. Securities purchases under the Asset Purchase Programme (APP) are expected to total EUR 40 billion in April, EUR 30 billion in May and EUR 20 billion in June. Purchases for the third quarter will depend on the data available at the time. Provided the medium-term inflation outlook does not change, purchases will be discontinued altogether in the third quarter. The target had originally been EUR 40 billion per month for the second quarter and EUR 30 billion for the third quarter. At the same time, however, the ECB maintained that an interest rate hike could only be considered some time after the end of the securities purchases. The official line had previously been that an interest rate move could be made shortly afterwards. The ECB is therefore keeping open the option of postponing the interest rate step further into the future.

"The ECB has spoken in favour of an accelerated reduction in securities purchases."

Although the Ukraine war has significantly increased economic uncertainties in the USA as well, the US Federal Reserve still has little room for manoeuvre in view of galloping inflation. The Fed is therefore likely to raise its inflation rate forecasts by a significant margin once again. In its last forecasts at the end of 2021, the Federal Reserve considered an inflation rate of 2.6% likely for the fourth quarter of 2022. This forecast is now likely to be raised to well above five percent. It is almost certain that the Fed will raise its prime rate by 25 basis points on 16 March and that further quarter percentage point steps

"The Fed is likely to hike interest rates in March."

will follow. However, the US Federal Reserve is likely to proceed cautiously and will keep a close eye on the impact this is having on economic growth.

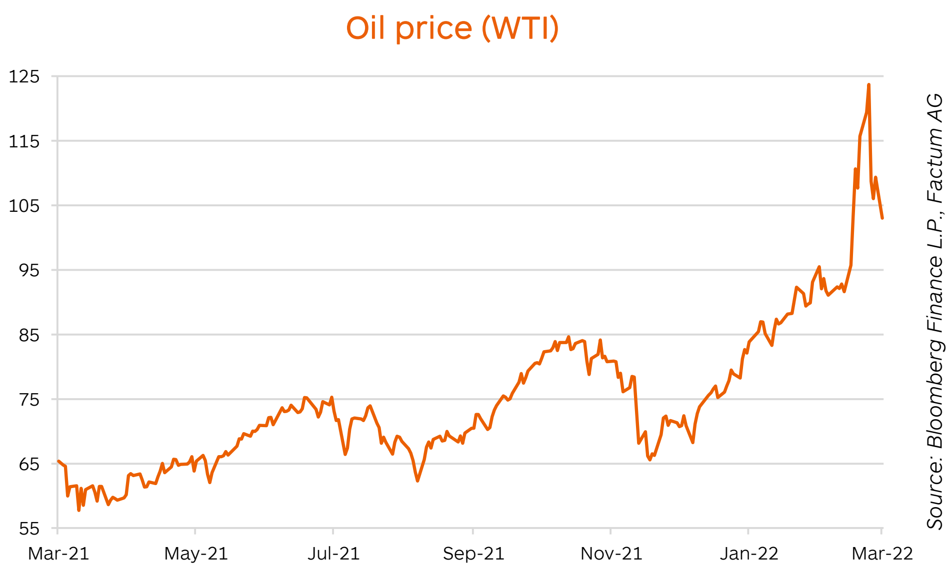
Commodities

Russia is not just a leading military power, but above all one of the world's leading suppliers of commodities. For example, around 40% of Russian oil exports and 70% of Russian gas exports go to Europe. Of the total European commodity imports, almost 40% of natural gas comes from Russia, and around 30% of its oil. The following data also shows how important Russia is for commodities in general: Of total global production, 40% of the palladium used in catalytic converters for petrol cars comes from Russia, in the case of grain, about 25% – the main customers being Turkey and Arab nations – in the case of gas 17%, of oil 10% and of gold 9%.

"Russia – one of the world's leading suppliers of commodities."

The Russian attack on Ukraine has had a huge impact on the price of WTI crude oil. In the first week of March, the price was around USD 125 per barrel, corresponding to a price increase of around 70% since the start of the year. The situation here has eased somewhat in recent days. However, the price of oil climbed above the USD 100 per barrel mark in March for the first time since 2014.

"At one point, oil prices jumped over 70% in the current year."



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Currencies

Russia's brutal intervention in Ukraine and its consequences have turned the US dollar and the Swiss franc into safe-haven currencies. Both have gained significantly against the euro, against the currencies of the Eastern European states and especially against the rouble in recent weeks. At one point, the rouble lost fifty percent of its value due to the massive sanctions imposed by the West, while the currencies of Hungary and Poland each lost around ten percent and the euro around four percent. The Swiss franc even reached parity with the euro in the first week of March. This means the value of the European single currency has fallen to its lowest level since the lower limit of CHF 1.20 was abandoned in the middle of January 2015. Given the ongoing geopolitical uncertainties, the extremely loose monetary policy in Europe (despite the high rate of inflation), Switzerland's enormous credibility, as well as the country's low public debt and chronic current account surplus, the strength of the Swiss franc is probably justified.

"The US dollar and the Swiss franc are seen as safe havens."

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Market overview 14 March 2022

Stock indices (in local currency)	Current	Current month (%)	YtD (%)
SMI	11,678.94	-1.90	-8.68
SPI	14,818.84	-2.32	-9.89
Euro Stoxx 50	3,741.10	-4.60	-12.68
Dow Jones	32,945.24	-2.65	-8.90
S&P 500	4,173.11	-4.51	-12.17
Nasdaq	12,581.22	-8.47	-19.46
Nikkei 225	25,307.85	-4.60	-12.05
MSCI Emerging Countries	1,055.01	-9.81	-14.18
Commodities			
Gold (USD/fine ounce)	1,950.88	2.19	7.35
WTI oil (USD/barrel)	103.01	7.62	37.00
Bond markets			
US Treasury Bonds 10Y (USD)	2.13	0.31	0.56
Swiss Eidgenossen 10Y (CHF)	0.42	0.16	0.53
German Bundesanleihen 10Y (EUR)	0.37	0.23	0.51
Currencies			
EUR/CHF	1.03	-0.16	-1.29
USD/CHF	0.94	2.39	2.48
EUR/USD	1.09	-2.49	-3.72
GBP/CHF	1.22	-0.80	-1.20
JPY/CHF	0.79	-0.36	0.10
JPY/USD	0.01	-2.71	-2.42

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