Investment Report

March 2023

Factum AG
Current positioning:

Portfolio balanced	Neutral	Current	Change*
Liquidity	3%	6%	→
Bonds	35%	33%	→
Shares	47%	44%	→
Alternative investments	15%	17%	→

**Changes since the last Investment Report (10 February 2023) & current assessment.*

Strategy overview

January and February of 2023 were filled with optimism. Of particular interest here was the European stock market, which was able to gain around 12% in value. The market consensus on inflation now seems to be that Europe and the US have peaked and that economic growth is heading for a soft landing. However, this assumption needs to be taken with enormous caution. After all, in the long run, the effects of massive interest rate hikes - in the USA we are in the second strongest tightening cycle in history - only appear in the real economy with a delay of a few quarters. The relatively mild winter has pushed energy prices down to such an extent that incomes are less affected than one would have expected from the excessively high oil and gas prices. In America, the labour market has also dried up a lot, which further boosts incomes. Unemployment in the United States, for example, is at its lowest since 1970 and in the Eurozone it is the lowest it has been in 20 years.

"Exercising a degree of caution is certainly not wrong at the moment".

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Given the robust labour markets still ensuring stable consumption, the existing economic momentum in Europe and the US, and the economic revival in China, we have come to the conclusion that a general earnings recession can most likely be avoided for the next six months. On the other hand, we must not fool ourselves, as the current economic situation poses major challenges. We are anticipating a volatile sideways market in the coming months, which could be quite nerve-wracking at times. As always, it is important to keep emotions under control, not to make gut decisions, but to act prudently and rationally. All in all, we currently consider a slight underweight in the equity ratio to be justified.

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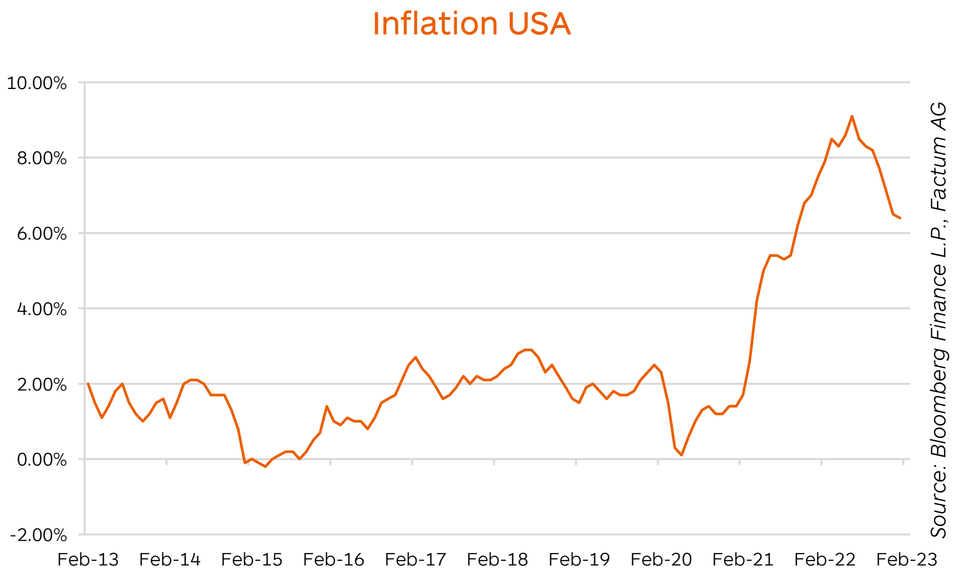

Politics

The upcoming US presidential primaries next year, which traditionally start on the East Coast, are already casting their shadows. Former President Donald Trump has started positioning himself. He gave a long speech at the Conservative Political Action Conference (CPAC). According to the latest polls, Trump would currently receive 43% of the votes in the party-internal duel, DeSantis 31%, Pence 7%, Haley 4% and the remainder goes to other candidates. The question is probably whether DeSantis will be able to make up for this shortfall, should in fact he actually run. DeSantis is popular with the party base because with his loose Corona measures, his heavy-handed approach to the "woke movement" and his criticism of the elite in Washington, he is basically following Trump's political line. However, the overwhelming tenor at the CPAC was clear: the majority is currently in favour of Trump.

"Were an election held today, Donald Trump would be the Republican Party's presidential nominee."

The bilateral relationship between the US and China has reached a new low. Recently, the different positions on the war in Ukraine, American punitive tariffs on Chinese goods and the Taiwan conflict have put a heavy strain on the relationship. On top of this, the American government had a Chinese balloon, which was suspected of spying, shot down over the USA a few weeks ago. In addition, last week Washington approved plans to supply Taiwan with $619 million in arms. This prompted Beijing to send more than twenty military aircraft into Taiwan's air defence zone. Despite the mutual provocations, Biden and Xi Jinping are able to resume talks, as it is not yet too late to focus on common interests in spite of all the ideological differences. The stakes are high for both sides, as the volume of trade between the two countries reached a new high last year.

"The new cold war between the US and China is the bitter reality."

Economy

The rise in interest rate expectations is due to the recent robustness of economic data, which makes the outlook for the global economy seem more optimistic than it was a few weeks ago. Following the abrupt departure from the zero-covid policy, the Chinese economy, for example, has noticeably picked up speed again. The services sector in particular will benefit over-proportionally from the opening, with the corresponding Purchasing Managers' Index (PMI Services) showing a significant improvement already last month.

"The Chinese economy has picked up noticeable momentum."

The economic outlook for Europe has brightened even more. As a result, the provisional purchasing managers' indices for February again rose more than expected. The PMI Composite rose from 50.3 to 52.3 and reached its highest level in nine months. In particular, demand in the service sector has picked up significantly. In the latest ZEW survey, the index on economic expectations rose to 28.1 points, its highest level in a year. This is now the fifth increase in a row and the second month with a positive value. In addition, the assessment of the current situation also improved for the second time. However, the improvement was much less pronounced than the expectations and they remained clearly in negative territory.

"The economic outlook is continuing to brighten in the Eurozone."

Equity markets

Market recovery is likely to stall as a lot of optimism has been factored into prices that is not necessarily going to materialise. As the year progresses, it will be difficult to continue the growth of the first months, which was supported by warm winter weather because, from a historical perspective, the global economy will react to the significant interest rate hikes with a delay of several quarters. Economic data continues to be better than expected. However, the leading indicator still points to an economic downturn. Valuations of

"We consider a slight underweight in equities to be justified."

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different markets are at their long-term averages. In addition, the equity risk premium is still positive, but at a historically low level. From a technical perspective, prices are expected to continue to rise in the short term, but the bear market is expected to continue in the medium to long term. Sentiment indicators are again in the neutral zone. All in all, we currently consider a slight underweight in the equity ratio to be justified.

Bond markets

"There will probably be an extension of the cycle of interest rate hikes".

While market participants were still of the opinion a few weeks ago that the central banks would soon end their cycle of interest rate hikes and that interest rate cuts were already on the cards in the second half of the year, this view has changed diametrically. In the meantime, the financial markets expect further interest rate measures and interest rate cuts are not expected until next year. The minutes of the US Federal Reserve meeting of early February which were published last Wednesday have confirmed the increased interest rate expectations. In these minutes, all US monetary watchdogs expressed their determination to lower inflation and consider further interest rate hikes to be necessary to achieve this. The economic and inflation data published since the last meeting of the central bank may have given this assessment even more support. The strong increase of more than 500,000 new jobs and the decline in the inflation rate, which was lower than hoped for, were only reported after the central bank meeting. However, in view of the risks involved, the Fed is more likely to consider steps of 25 basis points in rate hikes rather than larger leaps. All in all, we expect the Fed to raise rates at least two more times to a high of 5.25% before pausing to assess the impact of its actions on the economic environment.

"The bond asset class has become more attractive."

Bonds have recently experienced something of a renaissance as an asset class. This comes after data from Morningstar showed that investors withdrew EUR 85 billion from bond funds in the past investment year, making it the worst year since the 2008 financial crisis. In contrast, more new emerging market bonds were issued in January of this year than ever before. The last few weeks have shown that bonds can also go in either direction very quickly, depending on the interpretation of the communication from central bank representatives and the economic data. Currently, there are two interesting themes in the bond markets. On the one hand, thanks to the rise in yields in comparison to recent years, more demand from institutional investors is to be expected. This makes bonds a valid alternative vis-à-vis equities, especially if economic growth should weaken significantly. On the other, should the economy slow down, it would be of no surprise if corporate bonds of robust quality were to once again attract more attention than government bonds thanks to the additional yield ("carry"). Since the economy is expected to weaken in the current year, the focus should be on the more solid “investment grade” bonds rather than on the riskier bonds in the “high-yield” segment. Following the advances in the current year, the latter would probably be used by many investors for profit-taking again in the event of a significant economic slowdown.

Commodities

When compared to a broad basket of currencies, the US currency is clearly overvalued. The gold price is likely to be strengthened by a normalisation. USD real interest rates have now settled above the zero line on a sustained basis. The trend indicators are currently moving sideways. However, the war in Ukraine as well as other geopolitical trouble spots and the resulting negative second-round effects underline the characteristics of the crisis currency. Chart-wise, the gold price is currently in a bottoming phase and should tend to regain some strength towards the end of the first quarter. From a seasonal perspective, we are entering a neutral phase until the end of June. With the price gains since the beginning of the year, sentiment and positioning have recovered somewhat. All in all, the positive and negative arguments are more or less balanced, which is why we continue to consider a neutral ratio to be justified.

"We currently have a neutral weighting in gold."

Gold price over five years

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Currencies

The euro has gained about 10% in value since September 2022 due to the pronounced restrictive communication of the European Central Bank compared to that of the US central bank. Looking at the medium term, it is evident that the US dollar has not been able to maintain its trend of strength from last year - also in comparison to the Swiss franc. Nevertheless, no other currency in the world can currently claim the status as a global reserve currency. Chart-wise, more volatility in both directions is to be expected in the short term.

"The euro has gained around 10% against the US dollar since September 2022."

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Market overview 28 February 2023

Stock indices (in local currency)	Current	1 Mt (%)	YtD (%)
SMI	11,098.35	-1.66	3.44
SPI	14,303.48	-1.29	4.14
Euro Stoxx 50	4,238.38	1.94	12.07
Dow Jones	32,656.70	-3.94	-1.13
S&P 500	3,970.15	-2.45	3.68
Nasdaq	11,455.54	-1.00	9.61
Nikkei 225	27,445.56	0.49	5.25
MSCI Emerging Countries	964.01	-6.48	0.91
Commodities			
Gold (USD/fine ounce)	1,826.92	-5.26	0.16
WTI oil (USD/barrel)	77.05	-2.31	-4.00
Bond markets			
US Treasury Bonds 10Y (USD)	3.92	0.41	0.05
Swiss Eidgenossen 10Y (CHF)	1.47	0.18	-0.15
German Bundesanleihen 10Y (EUR)	2.65	0.37	0.08
Currencies			
EUR/CHF	1.00	0.14	0.71
USD/CHF	0.94	2.84	1.91
EUR/USD	1.06	-2.64	-1.21
GBP/CHF	1.13	0.37	1.25
JPY/CHF	0.69	-1.73	-1.91
JPY/USD	0.01	-4.46	-3.71

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