FACTUM

Investment Report

September 2020

Factum AG
Current positioning:

Portfolio balanced	Neutral	Current	Change*
Liquidity	4%	12%	↗
Bonds	37%	29%	→
Convertible bonds	4%	0%	→
Shares	41%	43%	→
Alternative investments	14%	16%	↘

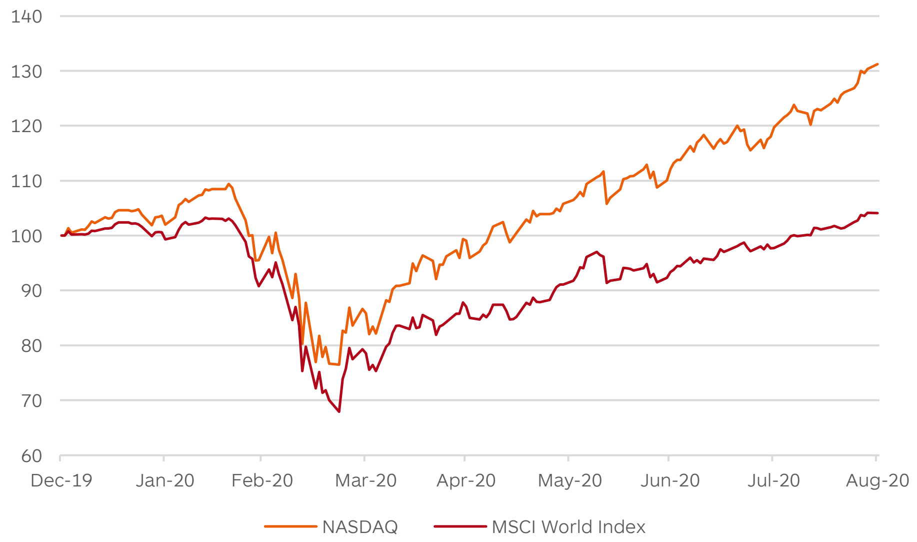
**Changes since the last Investment Report (06 August 2020) & current assessment.*

Strategy overview

Global stockmarkets continued to post gains in August and US stockmarket indices reached new historic highs. The impressive equity market rally continues to be led by the IT sector, which has hit a whole series of record highs and could be called the big winner of the coronavirus pandemic. As the chart below shows, the NASDAQ technology exchange in the United States has gained 32% in value this year, while the broader MSCI World Stock Index is up some 6% – a stunning 55% higher since its low on 23 March. Sectors such as energy and finance lag far behind. These are still well short of their levels recorded at the start of the year. There are few signs that this situation is likely to change any time soon.

"Stockmarkets continue to post gains – the NASDAQ technology exchange in particular is hurtling from one record to the next."

NASDAQ vs. MSCI World Index



Source: Bloomberg Finance L.P., Factum AG

"What is the outlook for international equity markets?"

In view of the stunning gains that the stockmarkets have posted since bottoming out in March, it comes as no great surprise that there are warning voices – ours included – that question the sustainability of the stockmarket rally. First and foremost the high valuations, such as price-earnings ratios, are raising question marks amongst some investors. But so long as the monetary and interest rate environment remains unchanged – which is what we are expecting – high valuations are likely to continue playing only a minor role. The argument that equities generate a comparatively high return compared to bonds and are therefore more or less without alternative has lost none of its validity. Continued support for equity markets is also provided by the fact that current economic data remains largely positive and the economic recovery that has been under way since April is continuing. Against the backdrop of the substantial price gains of recent months, the danger of temporary setbacks has undoubtedly increased. Moreover, a number of technical indicators are pointing to an overbought situation, especially in the US.

"Rebalancing the gold ratio as well as disposal of the listed private equity position."

At the beginning of August the price of gold passed through the important psychological barrier of USD 2,000 per ounce and peaked at just under USD 2,060. In the medium term, a number of factors back a higher price for this precious metal: rising inflation expectations, record-low opportunity costs, a continuing flood of liquidity from major central banks and a weakening US dollar. The positive performance of the gold price this year (+30%) caused the ratio to deviate from the tactical allocation (TAA). In addition, the situation was heavily overbought, prompting us to bring the ratio back into line with the tactical allocation (TAA). In August – after our rebalancing – there were in fact a number of price setbacks amounting to 5%. At the end of August the price of gold reached USD 1,967 per ounce. We are sticking to the tactical overweighting of our gold position, as the above-mentioned important factors suggest that the price should rise higher still. We would use a further price setback of around 5% to make acquisitions.

We also sold a small position in listed private equity companies last month. We are keeping the released sum liquid, as we feel comfortable with the current liquidity ratio of 12%. It is conceivable that we will invest part of it in equities in the medium term – emerging market equities are attractive from a valuation perspective and cyclical companies in Europe look like they have potential.

"Sale of our listed private equity position in August."

Politics

The Democratic presidential candidate Joe Biden has named Californian Senator Kamala Harris as his running mate in his election campaign. Harris is the first female coloured politician to run for the vice presidency. She had initially been a Democratic presidential candidate in 2019, but abandoned her campaign at an early stage in the process. Like Biden, Harris belongs to the centrist wing of the Democrats. During her own campaign, however, she reached out to the left wing of the party. She spoke out in favour of the unconditional basic income and demanded fines for companies that do not pay men and women equal wages. She also supported the "Green New Deal" proposed by the young representative Alexandria Ocasio-Cortez, and together with her introduced a law to make it easier for people with criminal convictions to find housing. Now that she is standing alongside Biden, however, she is likely to adopt a more moderate tone in the election campaign in order to appeal to the wider electorate.

"Biden has picked Harris – the first female coloured politician to run as a candidate for the American vice presidency."

Economy

Within the Eurozone, economic confidence and the business climate brightened significantly in August. Economic confidence rose for the fourth month in succession, climbing from 82.4 to reach 87.7 points. A particularly positive sign is the fact that the increase is broadly based across almost all economic sectors and countries. At the sector level, the increase was mainly driven by service providers (+9.0 points), although sentiment also brightened in the retail sector (+4.6 points) and industry (+3.5 points). Only the construction industry suffered a slight setback. The employment outlook also improved for the fourth straight month. On the retail side, as well as in industry and services, companies are expecting employment to be higher in the future than

"Eurozone sees surprisingly pronounced improvement in sentiment."

in previous months. At the country level, confidence rose in all the major economies, with the exception of Spain (-2.5 points). The biggest increase was recorded in France (+9.3 points), followed by the Netherlands (+7.1 points), Germany (+5.9 points) and Italy (+2.7 points).

Positive economic data were also reported from Japan and China. Japanese industrial production, for example, rose 8% relative to the previous month. This makes it the second-strongest increase recorded since 1978. Production growth was also broad-based, with 12 out of 15 sectors expanding. The increase was particularly strong in the automotive sector, where production rose 38.5% following a 28.9% increase in the previous month. Official Chinese purchasing managers' indices also recorded a solid performance. At 51.0 points in August, the PMI Manufacturing remained close to the previous month's value (51.5 points) and thus still in the growth zone. The PMI Non-Manufacturing also improved by one point, reaching 55.2 points, the highest level seen since January 2018.

"Upbeat data coming out of the Far East too."

Equity markets

Global equity markets have posted a strong V-shaped recovery since bottoming out in March, most notably in the United States and China, while Europe is still lagging behind. On the other hand, the spread of coronavirus appears to be under better control in Europe than it is in the US. For this reason, as a kind of insurance, a further US economic stimulus package is needed, especially to combat the rise in unemployment. The looming US elections also hold uncertainties, because a Democratic victory in both the Senate and the presidency would probably mean that tax increases would again put pressure on recent better-than-expected corporate earnings. For global equity markets, the continued generous supply of liquidity through "quantitative easing", that is to say the reduction of long-term interest rates through bond purchases by major central banks, is positive. This is keeping government bond yields artificially low and increasing the valuation attractiveness of equities relative to government bonds. Less positive for equities is the risk of a second major wave of the Covid-19 pandemic bringing possible partial lockdowns, the geopolitical uncertainties caused by the approaching US elections and tensions between the US and China.

"Since bottoming out in March, global equity markets have traced a significant V-shaped recovery."

Bond markets

If there needed to be a further argument for central banks to stick to their ultra-expansive policies for a long time to come, US Federal Reserve Chairman Jerome Powell delivered this at the end of August. At the virtual central

"Jerome Powell details the shift in strategy."

bankers meeting in Jackson Hole he explained the expected change in strategy. In future, the US Federal Reserve wishes to pursue a more flexible inflation target. In principle, the Fed is still aiming for prices to rise by 2% per annum. In future, however, the inflation may be above 2% for a while, provided it had previously been below 2% for a prolonged period. Through this step, the Fed is giving itself greater discretionary flexibility. Because inflation has indeed been below the target for many years, there is now less pressure for the Federal Reserve to intervene in future if inflation rises faster than expected. This means the Fed can maintain low interest rates and broadly generous monetary policies for a long time to come.

The new approach to the employment target also promises greater flexibility. In future, the Fed is looking to focus less on full employment than on employment shortfalls relative to their peaks. Up until now, the Federal Reserve also justified interest rate hikes on the grounds that if the labour market heats up and the unemployment rate falls below a certain threshold, waiting too long could trigger a dangerous inflationary momentum. The Fed is now distancing itself from this approach. In future, the monetary watchdogs will not be raising interest rates on the basis of a forecast, but will instead wait for signs that inflation is actually rising. The practical significance of this is currently low given the high level of unemployment, but it points to an important shift in the approach to monetary policy. The Federal Reserve had long assumed that there was a trade-off between employment and inflation. The argument was that when the rate of unemployment falls below a natural level, inflation begins to rise, a relationship known as the Phillips Curve. This means that unemployment can be too high as well as being too low. Previously, the Fed therefore tried to minimise the degree to which unemployment deviated from this natural level. The new policy now operates on the principle that unemployment can be too high but never too low or, in other words, that low unemployment can coexist with low inflation. A good example of this was provided by the labour market before the pandemic. Unemployment fell to a 50-year low last year, yet inflation remained moderate. Fed Chairman Powell explained that while this change may seem subtle, it reflects the new Fed view that a robust labour market can be maintained without causing an uptick in inflation.

"The new approach to the employment target also promises greater flexibility."

Commodities

In general, demand for commodities plays a central role. In the case of the most important commodity, crude oil, global economic growth is crucial. The International Energy Agency (IEA) recently revised its forecast for oil demand downwards. This came after global air travel in July 2020 was still two-thirds

"IEA revises downwards its forecast for oil demand."

down on the previous year. The increased spread of coronavirus, especially in the USA, is the reason the IEA reduced global demand for oil by half a million barrels per day for the 3rd and 4th quarters of 2020. For crude oil, however, the supply side also remains highly relevant, with Saudi Arabia recently increasing its oil production once again. For this reason, over the coming months oil prices are expected to become more volatile again in both directions.

Currencies

Discussions on currency markets have recently revolved principally around the slide in the value of the US dollar. Against the US dollar, the euro is currently benefiting from the extended economic stimulus provided by the ECB's quantitative easing programme and the EU's reconstruction fund – an additional economic stimulus for 2021.

"The US dollar has lost ground against the euro."

EUR/USD 2020

For the USD/CHF currency pair we currently see the possibility of fluctuations in both directions in the range of 2.5% – 5%. This is because, on the one hand, in technical terms, the US dollar appears rather oversold after its sharp decline. On the other hand, neither the narrowed interest rate gap nor US election uncertainty are supporting the US currency in the manner that used to be the case.

“Further USD/CHF volatility to be expected.”

USD/CHF 2020

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Market overview 31 August 2020

Stock indices (in local currency)	Current	1 Mt (%)	YtD (%)
SMI	10,135.56	1.30	-1.44
SPI	12,658.85	2.03	-1.39
Euro Stoxx 50	3,272.51	3.21	-10.52
Dow Jones	28,430.05	7.92	1.30
S&P 500	3,500.31	7.19	9.74
Nasdaq	11,775.46	9.70	32.15
Nikkei 225	23,139.76	6.64	-1.00
MSCI Emerging Countries	1,101.50	2.24	0.67
Commodities			
Gold (USD/fine ounce)	1,967.80	-0.41	29.69
WTI oil (USD/barrel)	42.61	5.81	-30.22
Bond markets			
US Treasury Bonds 10Y (USD)	0.70	0.18	-1.21
Swiss Eidgenossen 10Y (CHF)	-0.41	0.13	0.06
German Bundesanleihen 10Y (EUR)	-0.40	0.13	-0.21
Currencies			
EUR/CHF	1.08	0.27	-0.63
USD/CHF	0.90	-1.01	-6.51
EUR/USD	1.19	1.34	6.45
GBP/CHF	1.21	1.12	-5.82
JPY/CHF	0.85	-1.09	-4.20
JPY/USD	0.01	-0.05	2.57

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