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Investment Report

September 2021

Factum AG
Current positioning:

Portfolio balanced	Neutral	Current	Change*
Liquidity	3%	9%	→
Bonds	37%	29%	→
Shares	45%	47%	→
Alternative investments	15%	15%	→

**Changes since the last Investment Report (05 August 2021) & current assessment.*

Strategy overview

Global economic momentum has recently slowed a little, but this is likely to be a temporary setback. Within the context of the Fed's likely tapering of bond purchases, no significant disruption to bond markets is anticipated. The yield trend is likely to remain upwards, however. US stockmarkets made strong gains last month. The broad S&P500 rose 3%, while the technology exchange Nasdaq advanced 4%. US stockmarkets have now reached a market capitalisation of around USD 50 trillion, which is a new record. On equity markets, risk premiums are in a reasonably moderate range, once low interest rates are taken into account. Valuations are relatively high in historical terms in the USA and Switzerland, but otherwise mostly moderate. We have left our equity ratio slightly overweighted. Due to the re-emerging coronavirus pandemic, the fragile geopolitical situation as well as seasonal factors, we consider gold a good diversifier and have neutrally weighted the yellow precious metal in our managed portfolios.

"US stockmarkets have now reached a market capitalisation of around USD 50 trillion, which is a record."

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For performance reasons, we reduced the emerging market equities ratio at the end of August and, depending on the currency and risk profile, increased the equity ratio of the domestic market and the proportion of global equities. The reason why we refrained from "rebalancing" the emerging markets equity exposure was that emerging markets showed only a sluggish recovery compared to the industrialised countries (so far), despite the favourable performance of commodities. In addition, the intervention of the Chinese government (through investor-hostile regulations for individual sectors such as education, gaming, fintech, etc.) has "upset the cart", and is likely to have a negative impact on the asset class in the short to medium term. However, we are maintaining our exposure to Chinese "A Shares" (shares in local Chinese companies) for the present.

"Changes in our managed portfolios in August."

Politics

"America is back!" With these catchy words, President Biden assured EU heads of government in March of this year that exchanges and alliances would be carefully cultivated again from now on. Well, Biden's radical go-it-alone announcement of the withdrawal from Afghanistan without consultation or consideration of European wishes is not exactly in line with the statements made at the beginning of the year. Not just the Americans, the Europeans too have invested a great deal in the stability of Afghanistan, and paid for it with human lives and money. They therefore have every right to expect to be consulted.

"America first is back – or never went away."

The protests and complaints from Europeans are therefore entirely understandable. But the fact that the USA decided to go it alone is hardly surprising. After all, the Biden administration had made it clear for some time that it had little interest in the role of world policeman and that it did not see itself as the architect of a global trade order. Here the similarities to politics during the Trump era are striking. By his own admission, Biden makes foreign policy for the American middle class. That is the Biden Doctrine in a nutshell. According to Biden's security adviser, Jake Sullivan, every decision is judged on whether it will make life better, safer and easier for working families in America. Only with a broad and self-confident middle class, Biden believes, will his country be internally strong and stable enough to successfully master the myriad of challenges presented by China going forward.

"Biden puts the American middle class at the centre of his policies."

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So what does this mean for Europe? Firstly, Europe stands alone. Could this be the moment when the EU begins to exercise oft-invoked strategic autonomy and becomes a heavyweight geopolitical player in its own right? There are considerable doubts about this, and it is highly unlikely that this will happen. At its core, the European Union remains a heterogeneous alliance of nation states that are sometimes more, sometimes less receptive to the offers and interventions of the major powers. Nevertheless, it should not be forgotten that the EU is itself a major economic power.

"So what does this mean for Europe?"

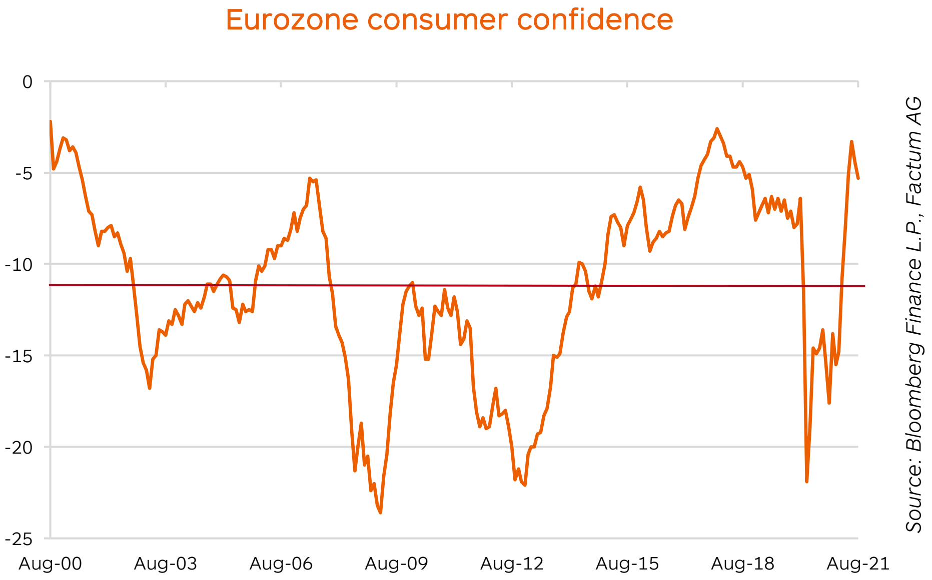
Economy

Economic momentum has also eased in the Eurozone due to the deteriorating coronavirus situation. In contrast to the United States, however, the easing has been significantly less pronounced to date. For example, provisional purchasing managers' indices have clearly held up better. The PMI Composite retreated only marginally from 60.2 to 59.5 points, the first decline in seven months. The current level represents the second highest value in the last 15 years. The momentum of growth therefore remains high. Moreover, due to persistent supply bottlenecks, the deterioration occurred mainly in industry, while sentiment in the services sector remained largely unchanged. Thanks to a substantial backlog of orders and a persistently confident outlook, more new jobs were created than at any time in the last 21 years. However, acute delivery delays have again triggered a sharp increase in purchasing costs as well as sales prices. At the same time, this meant that the high backlog of orders could only be processed very slowly. At the country level, growth in Germany remained markedly high despite the significant slowdown on the industrial side. In France, momentum decreased slightly, while it increased somewhat in the other countries covered by the survey.

"Eurozone – growth momentum high, despite delta variant."

Certain other indicators, however, are beginning to show darker clouds on the horizon. For example, the high-profile German ifo index weakened for the second time in succession and by more than anticipated. In France and Italy, the business climate also weakened significantly more than expected. In addition, consumers are becoming more cautious once again. Consumer sentiment in the Eurozone eased for the second straight month in August, according to provisional data from the European Commission. The key sentiment indicator fell from -4.4 to -5.3 points. Consensus expectations had anticipated a smaller decline. The indicator is the lowest it has been since April 2021. Despite the decline, however, consumer confidence remains healthy and well above the long-term average as well as above the level before the pandemic began.

"Eurozone consumer confidence: consolidation at a high level."



Equity markets

Global equity markets remained in record territory in August, apart from a few weaker days at the end of August, which have since been made up for (buy-the-dip mentality). The main driver behind the strength of equity markets has been the publication of corporate results. The majority of companies clearly surprised on the positive side, with the US once again standing out, especially relative to Europe. Around 90% of the companies in the S&P500 met or exceeded earnings expectations. The average over five years is 75%. The IT, communications, banking and pharmaceutical sectors stand out, while the utilities and raw materials sectors faced disappointments. A substantial number of companies revised their outlook for 2021 upwards due to full order books, prompting analysts to adjust their price targets upwards. What is striking, however, is the fact that bond and equity markets reflect diverging expectations. It should be noted that the bond markets, where yields remain virtually unchanged at unusually low levels, have a diametrically different view of the optimism on stockmarkets.

“Very strong quarterly results, particularly in the USA.”

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Bond markets

"Jackson Hole Symposium without major surprise."

The highly anticipated speech by Fed Chair Jerome Powell at the Jackson Hole Symposium did not bring any clarification regarding the start date for "tapering". The Fed chief pointed to the strong employment gains in recent months and, in particular, reiterated that most FOMC members – including himself – believed at the July meeting that, provided the economy performs broadly as expected, it may be appropriate to begin tapering this year. At the same time, however, he also addressed the economic downside risks emanating from the rapid spread of the delta variant. The decision on when to start the tapering process has clearly not yet been taken. The above-mentioned work report will be available by the time of the next meeting scheduled for 21/22 September, which is likely to be crucial. We currently expect tapering to start this year. However, a strong slowdown of the economy due to the pandemic would probably cause the Federal Reserve to postpone its first move.

Commodities

"Commodity markets are likely to have a rocky road ahead in the coming months."

Commodities that are dependent on the economy, such as industrial metals or crude oil, have performed very well so far this year. With economic data again rather disappointing compared to consensus expectations, profit-taking is therefore to be anticipated in the coming quarters. Undoubtedly, however, the supply factor can continue to support these commodities, at least temporarily. If real interest rates do not rise at the same time, gold may be expected to gain ground in this scenario vis-à-vis cyclical commodities. However, the US dollar will also play a key role here. In this scenario, it is not expected to rise in value. There is no doubt that commodity markets have a rocky road ahead of them in the coming months, as they are historically even more susceptible to fluctuations than equity markets and thus, in our view, a certain degree of caution should be exercised.

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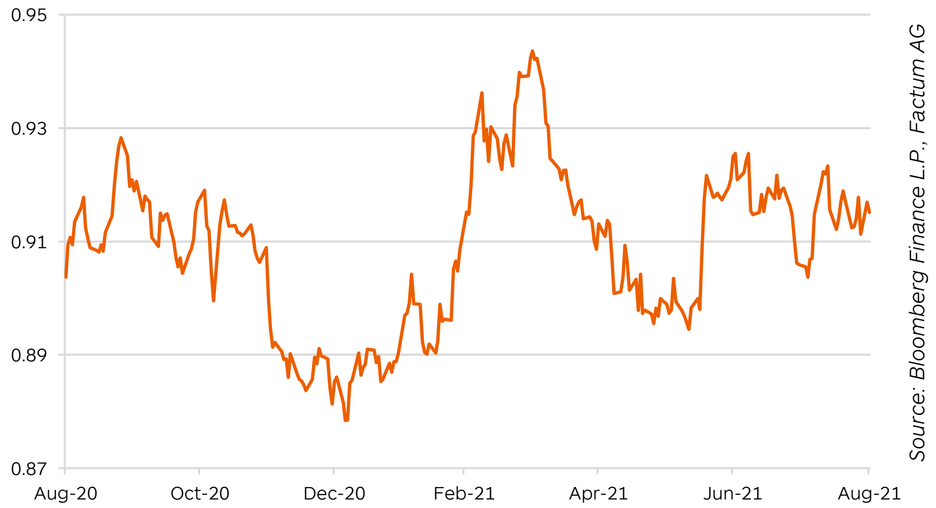
Currencies

Since the Fed's wording changed in the summer and a rate hike at the end of 2022 / beginning of 2023 has become very likely, the US dollar has posted gains against the euro. For its part, the ECB kept its interest rates at record lows, boosting the US currency in anticipation of a rate hike in the USA. The US dollar has been engaged in a sideways movement against the Swiss franc. This is due to the fact that the Swiss franc, along with the US dollar, will again experience greater demand in the event of renewed uncertainties. In the medium term, however, the significant increase in US government debt and the US current account deficit are likely to slow the US dollar recovery. In overall terms, as volatility on financial markets increases, currency markets will probably also become more nervous in the autumn.

"The US dollar has been engaged in a sideways movement against the Swiss franc."

USD/CHF over twelve months



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Market overview 31 August 2021

Stock indices (in local currency)	Current	1 Mt (%)	YtD (%)
SMI	12,411.11	2.43	19.15
SPI	15,947.70	2.37	19.66
Euro Stoxx 50	4,196.41	2.63	20.56
Dow Jones	35,360.73	1.50	17.04
S&P 500	4,522.68	3.04	21.57
Nasdaq	15,259.24	4.09	18.94
Nikkei 225	28,089.54	3.00	3.23
Stocks Emerging Countries	1,308.67	2.63	2.92
Commodities			
Gold (USD/fine ounce)	1,813.62	-0.03	-4.46
WTI oil (USD/barrel)	68.50	-7.37	41.18
Bond markets			
US Treasury Bonds 10Y (USD)	1.31	0.09	0.40
Swiss Eidgenossen 10Y (CHF)	-0.32	0.05	0.23
German Bundesanleihen 10Y (EUR)	-0.38	0.08	0.19
Currencies			
EUR/CHF	1.08	0.56	-0.04
USD/CHF	0.92	1.02	3.38
EUR/USD	1.18	-0.51	-3.33
GBP/CHF	1.26	0.00	4.07
JPY/CHF	0.83	0.76	-2.93
JPY/USD	0.01	-0.29	-6.08

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