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FACTUM

Investment Report

September 2022

Factum AG Current positioning:			
Portfolio balanced	Neutral	Current	Change*
Liquidity	3%	7%	→
Bonds	35%	31%	→
Shares	47%	45%	→
Alternative investments	15%	17%	→

**Changes since the last Investment Report (5 August 2022) & current assessment.*

Strategy overview

Global equities gained around 8% in July and the S&P 500 Index in the US even rose by 9%, amounting to the best month of July since 1939. Factors such as the significant drop in oil prices, a better-than-forecast reporting season and lower-than-expected inflation data in America helped support stock indices. As noted here in the last Investment Report, we take a somewhat critical view of this development and are convinced that it was most likely a bear market rally. In the past month of August, things then moved in the opposite direction, and the World Equity Index lost around 4% in value. The US, for example, slipped into a technical recession in the second quarter of 2022 and Europe is likely to follow with a time lag of around six months. The key issue for global investment markets is likely to be how inflation develops and what measures central banks bring to bear in response. As a consequence, we do not see any sustainable upside potential for global equity markets in the coming months.

"The rollercoaster ride of stockmarkets continues."

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World Equity Index

At the end of July, we reduced the equity ratio for all portfolios with an equity component, as global equities had gained 11% since mid-June. In retrospect, this was a good decision. We did not carry out any transactions in our managed portfolios over the past month. In overall terms, we are slightly underweighted in equities, while favouring US dollar liquidity.

"In our view, a moderate underweighting of equities is legitimate at the present time."

Politics

In August, US President Biden signed the Inflation Reduction Act. This legislative package is not predominantly about fighting inflation, but instead about a strong push for climate protection in the US. Some USD 370 billion in government subsidies and tax incentives are set to flow into climate protection measures such as solar modules, wind turbines and e-cars over the course of the next decade. The scale of the funding is unique in the history of US climate policy.

"Over the course of the coming decade, USD 370 billion is set to flow into climate protection measures in America."

At the beginning of September, less than two months after Prime Minister Boris Johnson tendered his resignation, the British Tories announced the result of the protracted process to find his successor as party leader. As expected, the previous Foreign Minister Liz Truss won the election. She secured around 57 percent of the votes of the approximately 140,000 Tory party members. Her rival, former Chancellor of the Exchequer Rishi Sunak, obtained 43 percent, which was better than had been anticipated.

"Liz Truss is the new prime minister."

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Economy

Economic data coming out of major emerging markets recently presented a rather mixed picture. While the Purchasing Managers' Index for the industrial sector in India remained stable at a high 56.2 points, signalling strong growth in the industrial sector, there was a significant slowdown in Brazil. There, the PMI Manufacturing slipped back from 54.0 to 51.9 points, although it remains in the expansion zone. In China, on the other hand, the PMI Manufacturing has fallen below the critical 50 point threshold. While production saw a moderate increase, despite local interruptions due to power outages, incoming orders fell and employment also contracted slightly. Input prices have also fallen for the first time since May 2020, meaning that Chinese companies lowered the prices of their consumer products as a result as well as because of weak demand. Manufacturers' assessment of the business outlook for the coming twelve months remained pessimistic. The reasons given were the continuing fight against Covid, the global growth slowdown and anaemic domestic demand. Government stimulus measures should prevent any further downturn on the industrial side, but only abandonment of the more than questionable zero-Covid strategy will brighten the growth outlook in the longer term. Unfortunately, there is no sign of this happening any time soon.

"Mixed data coming out of China, India and Brazil."

Equity markets

Results reported by global stock corporations and in particular by S&P 500 companies for the second quarter may be described as sound. Of these companies, around 73% have reported earnings growth above estimates, which is only slightly below the 5-year average of 77%. However, the outlook for these companies is getting more cautious. The combination of a weakening global economy with an increase in miscellaneous cost factors explains this. In addition, bottlenecks still exist in the required supply of components for the production of goods. It is very likely that profit margins, which are historically high thanks to the strong results generated by energy companies, will decline in the following months due to increased financing and wage costs. Analysts' earnings estimates for the full year 2022 and 2023 still seem relatively ambitious at present. In overall terms, as mentioned at the start, we consider a slight underweighting of the equity ratio to be the right approach – at least for the present.

"Sound corporate figures for the second quarter – particularly from the USA."

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Bond markets

At the annual Federal Reserve meeting in Jackson Hole, US Federal Reserve Chairman Jerome Powell went on record as saying that financial markets will have to prepare for a longer period of restrictive monetary policies, and firmly rejected hopes of a quick end to interest rate hikes. He stated that restoring price stability would take some time and would require the consistent use of monetary policy instruments to bring supply and demand into better balance. Reducing inflation will likely require a prolonged period of below-trend growth, have a negative impact on the labour market and cause some pain for households and businesses, he said. According to Powell, these are the costs of fighting inflation. However, if price stability could not be restored, this would cause much “greater pain”. History provides ample testimony about the perils of loosening monetary policies prematurely. He added that the Federal Reserve had an unconditional responsibility to safeguard price stability.

“Fed Chair Powell signals extended period of restrictive monetary policies.”

Commodities

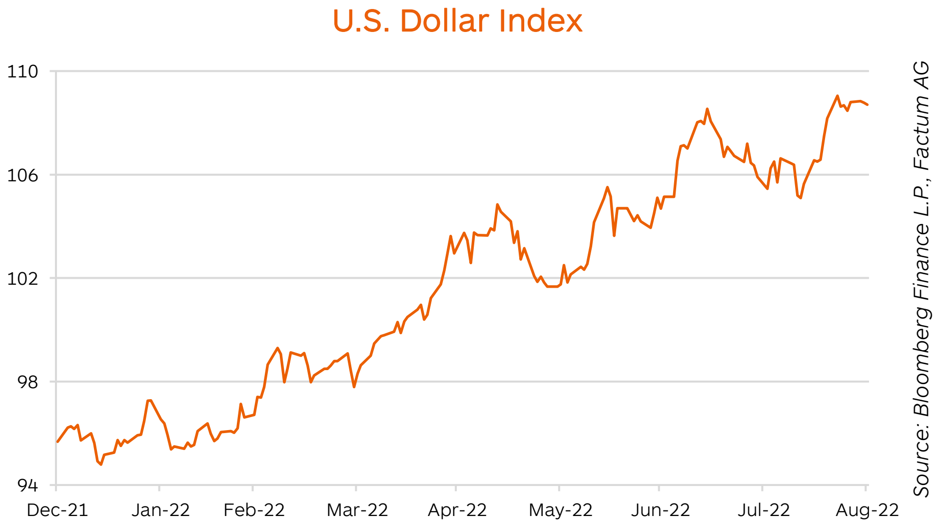
The price of oil has fallen by around 30% from its peak in the current year. The main reason for this is the fact that the US has boosted global supply by releasing some of its stockpiled strategic reserves. At the start of September, however, it became known that in view of falling prices, OPEC+ is set to constrain its own production volumes once again, with effect from October. This will be the first cut in a year. In broad terms, commodities are likely to react sensitively to upcoming economic data. If signs of an economic slowdown materialise, further corrections are inevitable.

“The oil price has lost about 30% from its peak during the course of the current year.”

Currencies

The US Dollar Index, the barometer of the American currency vis-à-vis the foreign currencies of America’s major trading partners, rose to a 20-year high at the beginning of the summer holiday period. It therefore comes as no great surprise that there has been a degree of profit-taking in the meantime. The decisive factor will be the further communications coming out of the US Federal Reserve, that is to say how aggressive the coming interest rate hikes are likely to be. We have a neutral weighting in the currencies for the most part, with only the US currency slightly overweighted at present.

“The US Dollar Index recently rose to a 20-year high.”


U.S. Dollar Index
110
106
102
98
94
Dec-21
Jan-22
Feb-22
Mar-22
Apr-22
May-22
Jun-22
Jul-22
Aug-22
Source: Bloomberg Finance L.P., Factum AG

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Market overview 31 August 2022

Stock indices (in local currency)	Current	1 Mt (%)	YtD (%)
SMI	10,855.03	-2.61	-13.40
SPI	14,003.70	-3.06	-14.84
Euro Stoxx 50	3,517.25	-5.09	-15.73
Dow Jones	31,510.43	-3.72	-12.01
S&P 500	3,955.00	-4.08	-16.15
Nasdaq	11,816.20	-4.53	-24.06
Nikkei 225	28,091.53	1.10	-1.29
MSCI Emerging Countries	994.11	0.45	-17.31
Commodities			
Gold (USD/fine ounce)	1,711.04	-3.11	-6.46
WTI oil (USD/barrel)	89.55	-9.20	19.07
Bond markets (change in basis points)			
US Treasury Bonds 10Y (USD)	3.19	0.54	1.68
Swiss Eidgenossen 10Y (CHF)	0.84	0.40	0.97
German Bundesanleihen 10Y (EUR)	1.54	0.72	1.72
Currencies			
EUR/CHF	0.98	1.00	-5.26
USD/CHF	0.98	2.64	7.08
EUR/USD	1.01	-1.62	-11.57
GBP/CHF	1.14	-1.94	-7.85
JPY/CHF	0.70	-1.57	-11.27
JPY/USD	0.01	-4.09	-17.16

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