

# Investment Report

September 2023

## Factum AG

### Current positioning:

Portfolio balanced	Neutral	Current	Change*
Liquidity	3%	4%	→
Bonds	35%	35%	→
Equities	47%	44%	→
Alternative investments	15%	17%	→

*\*Changes since the last Investment Report (11 August 2023) & current assessment.*

### Strategy overview

Once again, Jerome Powell reaffirmed at the annual meeting of the Federal Reserve Board in Jackson Hole that the fight against inflation has clear priority over economic policy. As a result, the balancing act between weakening growth and preventing a recession continues. When it comes to the interest rate decision in mid-September, the ECB could still see a need for action, while the Fed and the SNB are likely to lay low.

We are remaining cautious in our tactical asset allocation and are focusing on quality. As a result, we remain slightly underweight in equities - three percent compared to our neutral quota. In the event of a significant decline in equity prices, we would consider increasing to the neutral quota.

For some time now, our emerging market equity quota has been composed of a passive element, an ETF that represents the index of global emerging

"The fight against inflation still takes precedence over everything else."

"We remain slightly underweight in equities."

"Reduction of our China exposure from just under 3% to slightly below 2%."

market equities and an active fund from JP Morgan that invests in the Chinese onshore market, so-called "A-shares". At the end of August, we decided to reduce our overweight in China and sell our dedicated China A-Shares exposure in favour of global emerging markets (share of China around 30%). In a balanced portfolio, the China exposure (at the "look-through" level) is reduced from just under 3% to slightly below 2%.

Unfortunately, at present it does not look like the fundamental picture in China will improve significantly in the near future (keywords: real estate sector with record high vacancy rates, demographic development, too high savings rates, deflation etc.). In China, seventy percent of private assets are tied up in real estate and recent figures show that some ninety million flats remain empty. Youth unemployment figures released in July showed that 21.3% of 16–24-year-olds are without a job, a new record high. Since then, the government has stopped publishing figures for fear of unrest. According to certain reports, the actual rate is probably closer to 40% or 50%. These are really dramatic figures. Particularly worrying is the fact that 70% of the young people who are unemployed have a university degree. The government and the central bank have so far been unwilling to counteract this with appropriate measures to stimulate the economy.

"China's problems are complex."

### Politics

The informal group of BRICS countries - consisting of Brazil, Russia, India, China and South Africa - have decided to expand by six countries. Saudi Arabia, Iran, the United Arab Emirates (UAE), Argentina, Egypt and Ethiopia are to be included as of 1 January 2024. This decision means that in the future, almost half of the world's population will live in these countries. The share of the member states in the global gross domestic product adjusted for purchasing power will increase to 37% and is thus clearly higher than that of the G-7 industrial nations with around 30%. One of the great goals of BRICS is de-dollarisation. In addition, the member states have the vision of a better world. However, it remains to be seen how, for example, South Africa's liberal constitution and commitment to women's rights is compatible with countries like Iran and Saudi Arabia. With the expansion, the BRICS group will become, in geopolitical terms, even more heterogeneous than it already is. The previous rivalry between China and India will be joined by those between Iran and Saudi Arabia as well as between Egypt and Ethiopia.

"The expansion of the BRICS countries makes the group even more heterogeneous."

## Economy

The Chinese real estate market has been in a crisis for more than two years. Now Country Garden, the country's largest real estate developer, can no longer meet its payment obligations and a grace period is in effect. Should this deadline expire unused in a fortnight, insolvency may be imminent. The Chinese government is hesitant in responding to the crisis. However, it has made sure for two years already that real estate developers can continue to obtain sources of financing and complete the construction projects they have pending. However, far-reaching measures have not yet been taken. This means that there will be no structural change in the Chinese real estate market, and it is to be expected that, in view of falling real estate prices, even more real estate developers will run into payment difficulties. In China, the real estate sector accounts for a quarter of the total economic output. This makes the sector immensely important for financial stability. The recent events have significantly increased the downside risks to the economy. A slowdown of private consumption in China would also have a negative impact on the European and American economies and, as a result, on financial markets around the globe.

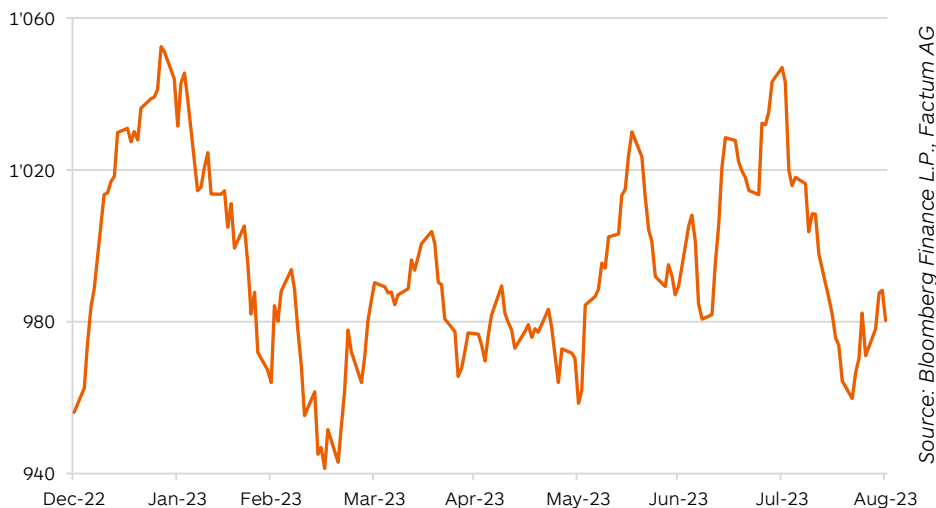
"Chinese real estate market as the problem child of the financial markets."

## Equity markets

Emerging market equities, of which China, as a heavyweight, is the most important country, have once again failed to live up to high hopes this year. The reasons for the negative development of China in the current year were discussed in detail at the beginning of this report.

"Emerging market equities have not been able to live up to the big expectations so far."

### Emerging market equities YtD



Thanks to good profit margins, US corporate results for the second quarter were better than expected. Compared to the previous year, US profits did fall, yet not by 9%, but only by 4%, and as is well known, the previous year was a strong profit year due to high oil prices, especially for energy stocks. Not including the energy sector, US companies even showed year-on-year profit growth in the second quarter. Lower commodity prices compared to the previous year also had an impact in Europe. In the quarterly results, basic commodities and chemical companies showed negative trends, while the financial sector and food companies turned out to be more positive.

"US quarterly results were better than expected."

Due to the economic uncertainties, we are currently not prepared to increase the risk in the portfolios we manage so we remain underweight in equities. We think it makes sense to have a balance between "growth" and "value" equities.

"Our underweight in equities still remains."

### Bond markets

At the Federal Reserve meeting in Jackson Hole, Jerome Powell reiterated that inflation was still too high and that the inflation target of 2% would not be questioned. Risk management is now crucial. This means that the fight against inflation still has priority and economic policy must be patient. As a result, interest rate cuts are unlikely in the short term, unless inflation moves towards 2% on a sustained basis. If we divide inflation into its two components, we see that supply-driven inflation has normalised and that the problem lies with excessively high demand-driven inflation. This means that Jerome Powell and Christine Lagarde must continue to slow down the economy so that unemployment rises, wages fall and consumption (demand-driven inflation) drops sustainably. At the same time, it is important to prevent a deep recession, which is a difficult balancing act. The Fed has raised the key interest rate in the USA in recent months like going up in an elevator. After a short pause, it was raised again in July by a quarter of a point to 5.5%, the highest level in 22 years. The next meeting will take place on 19 and 20 September.

"The Fed is committed to bringing demand-driven inflation down in a sustainable manner."

### Commodities

After the oil price was able to benefit from the extension of the supply reduction by the OPEC+ countries in recent weeks, it can be assumed that demand will regain importance as a market factor. This means that movements of 5 to 10% should not be surprising. This will depend on the development of the economy, especially in the USA, Europe and China. Since the Chinese economy is currently rather disappointing and the US is developing more positively, fluctuations in both directions are conceivable. Gold has shown an

"Gold shows an appealing performance of 6%, but the hurdle of USD 2,000 per ounce has not been taken."

attractive performance of around 6% since the beginning of the year but has technically bounced off the psychological mark of USD 2,000 per ounce. Compared over several years, gold is showing an upward trend. We are currently maintaining a neutral, strategic weighting in gold.

### Currencies

In the short term, the US dollar is showing some recovery against the Swiss franc. This is against the backdrop of higher US bond yields or US interest rates compared to those in Switzerland. However, a longer time comparison shows that the US dollar has weakened in recent months and is below the 2020 low.

"US dollar shows a recovery against the CHF."

#### USD/CHF YtD



Source: Bloomberg Finance L.P., Factum AG

The euro has also depreciated against the Swiss franc this year. This is not surprising in view of the weakening EU economy in recent months. Should this improve in comparison with the Swiss economy, the euro could recover somewhat. However, the direction of the euro against the US dollar is also traditionally important for the movement of the euro against the Swiss franc.

"The euro has also depreciated against the Swiss franc in the current year."

## Market overview 31 August 2023

Equity indices (in local currency)	Current	1 Mt (%)	YtD (%)
SMI	11,125.95	-1.62	6.80
SPI	14,664.72	-1.76	6.77
Euro Stoxx 50	4,279.11	-3.82	16.65
Dow Jones	34,721.91	-2.01	6.37
S&P 500	4,507.66	-1.59	18.72
Nasdaq	14,034.97	-2.05	34.89
Nikkei 225	32,619.34	-1.61	26.54
Emerging markets	980.33	-6.14	4.80

## Commodities

Gold (USD/fine ounce)	1,940.19	-1.27	6.37
WTI oil (USD/barrel)	83.63	2.24	4.20

## Bond markets (change in basis points)

US Treasury Bonds 10Y (USD)	4.11	0.15	0.23
Swiss Eidgenossen 10Y (CHF)	0.93	-0.08	-0.68
German Bundesanleihen 10Y (EUR)	2.47	-0.03	-0.11

## Currencies

EUR/CHF	0.96	-0.09	-3.20
USD/CHF	0.88	1.32	-4.45
EUR/USD	1.08	-1.40	1.29
GBP/CHF	1.12	0.04	0.07
JPY/CHF	0.61	-0.88	-13.95
JPY/USD	0.01	-2.23	-9.91

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