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FACTUM

Investment Report

December 2020

Factum AG
Current positioning:

Portfolio balanced	Neutral	Current	Change*
Liquidity	4%	8%	↘
Bonds	37%	29%	→
Convertible bonds	4%	0%	→
Shares	41%	46%	↗
Alternative investments	14%	17%	→

**Changes since the last Investment Report (09 November 2020) & current assessment.*

Strategy overview

The past month of November was quite literally a “game changer” for markets. Positive vaccine results from Pfizer together with Biontech as well as Moderna and AstraZeneca provide encouraging indications that it will be possible to get a grip on the global pandemic in 2021. The other important factor was the outcome of the 2020 US elections. The election of Joe Biden as the 46th US president and the absence of a “blue landslide” triggered jubilation in the markets. This led, inter alia, to the Dow Jones Industrial Average, which was first calculated in 1896 by Charles Dow, the founder of the Wall Street Journal, reaching an all-time high at the end of November and breaking through the 30,000 point threshold. The index gained 12% in value in November alone – since the start of the year the performance has been +6%. This development is more than remarkable, as the index fell to 18,591 points in March as a result of the coronavirus pandemic.

“The US elections and Covid-19 vaccines are stimulating stock prices.”

Dow Jones Industrial Average

The positive news regarding possible vaccines as well as the outcome of the US elections have prompted us to increase our risk budget selectively and to increase the equity exposure for all risk profiles between 2% and 4%. Emerging market equities have not been favoured by investors in recent years and are therefore attractively valued in our view on a relative basis. The Chinese economy has already bounced back significantly following the crisis, relative to other countries. This should help the global cyclical upswing. When increasing the ratio, we opted for an actively managed investment solution that was already included in the portfolios. In our view, this is well positioned in terms of country and sector allocations (75% in Asia and around 60% in the consumer discretionary, IT and financial sectors). When it comes to the global equity allocation, we have also opted for an investment solution that is already included in the portfolios, namely an ETF MSCI World that takes SRI criteria into account.

"Equity ratios for all risk profiles between 2% and 4% higher via emerging markets and global equities."

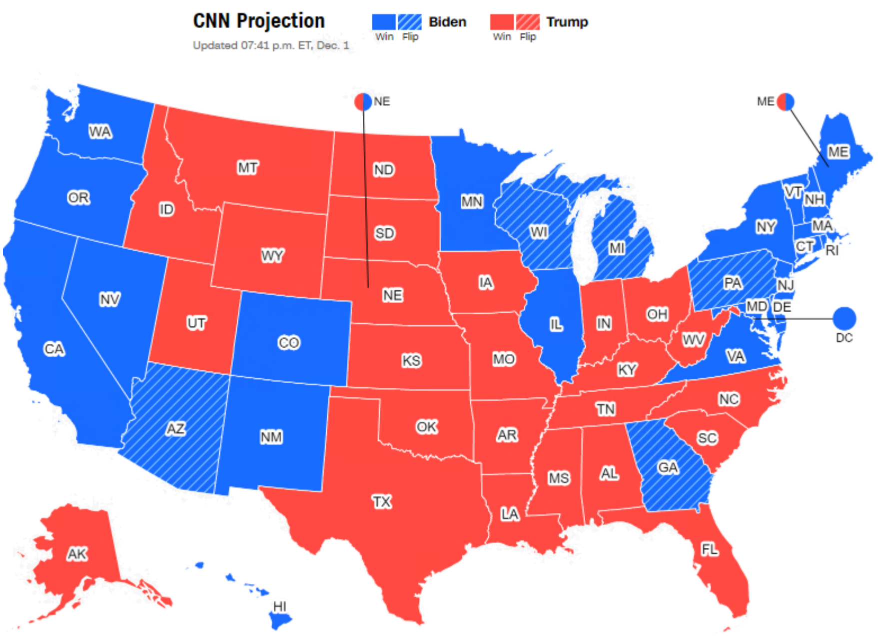
As a consequence, we are overweighted in equities in our portfolios and are confident they have further upside potential over the next twelve months. Due to the low returns – or even negative returns in certain cases – we remain underweighted in bonds. We are sticking to the overweighting of the gold position. Even though the gold price has come under pressure of late, we still consider gold to be an essential portfolio component. In our view, the flood of money being issued by central banks and negative real yields are important reasons to justify overweighting.

"What is the current positioning in our portfolios?"

Politics

Joe Biden secured victory in an extremely hard-fought presidential election with 306 votes to 232 electoral college votes, making him the 46th President of the United States. Trump and his administration are still taking legal action against the result, although the lawsuits are unlikely to be successful. Although Trump has raised between $150 million and $170 million since the elections for an "Election Defence Fund", he is likely to use this money more for his own political future.

"Biden wins the US election and is set to become the 46th President of the United States."



Source: CNN politics 2020 election

While the House of Representatives remains in democratic hands, the fight for the Senate is going into extra time. At present, the Republicans have 50 seats, while the Democrats have 48. This gives rise to the question whether the Republicans will be able to maintain their majority in the smaller chamber, which would put a spanner in the works for a Democratic president, or whether the Democrats manage to secure the Senate after all. It all boils down to 5 January 2021, when the two run-off elections in the state of Georgia are scheduled to take place. If the Democrats win the two Senate seats that are up for grabs, there will be a 50-50 equal distribution of seats. With Kamala Harris as the new vice-president having the casting vote, this would give the Democrats a key advantage. For the Republican Party, the loss of the White House and the Senate would be a catastrophe and would give the Democrats the maximum possible power in Washington. The way things are looking, however, it is our assumption that the Republicans will be able to hold on to their majority in the Senate, which would keep the political environment balanced.

"The battle for the Senate will be decided in early January."

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Joe Biden wants to appoint the former chair of the US Federal Reserve (Fed) as his Treasury Secretary. If confirmed by the Senate in early 2021 for the office of Secretary of the Treasury, she would also become the first female US Treasury Secretary in the 231-year history of the department.

"Janet Yellen is likely to be appointed as Treasury Secretary in the Biden Administration."

The announcement of the signing of the Regional Comprehensive Economic Partnership (RCEP) FTA came as something of a surprise. This had been debated for more than eight years – and over 30 rounds of negotiations. 15 countries have signed this agreement. In addition to the ten members of the Association of South-East Asian Nations (Asean), founding members include Australia, China, Japan, New Zealand and South Korea. The new FTA covers 30% of global economic output, and this is expected to grow strongly in the coming years. Not just China, Japan and South Korea are set to benefit from the significant reduction in trade barriers, but smaller South East Asian countries should also emerge as winners from the new economic relationship as well as the transfer of technology. With the new agreement, growth is likely to shift further from west to east. The only downer for the 15 members of the RCEP is the fact that India pulled out of the negotiations last year. The protectionist Indian Prime Minister Narendra Modi was determined to protect local companies from foreign competition.

"Free trade agreement set to strengthen cohesion in the Asia-Pacific region."

Economy

There are promising signs that the main emerging economies are recovering rapidly from the Covid-19 pandemic. The official purchasing managers' indices were published in China at the end of November. Both the Manufacturing PMI and the Service PMI recorded an increase relative to the previous month, and are comfortably above the growth threshold of 50 points. The composite PMI, which combines the figures from both sectors, climbed from 55.3 to reach 55.7 points and even hit its highest level since June 2012.

"The recovery in China continues."

Consumer confidence in Brazil deteriorated for the second consecutive month in November, albeit only marginally (from 82.4 to 81.7 points). The rise in new infections and higher unemployment as well as the reduction of financial subsidies provided by the state weighed down on sentiment. The difficult labour market situation is likely to continue to depress consumer sentiment in the coming months.

"Brazil is still facing a number of problems."

Equity markets

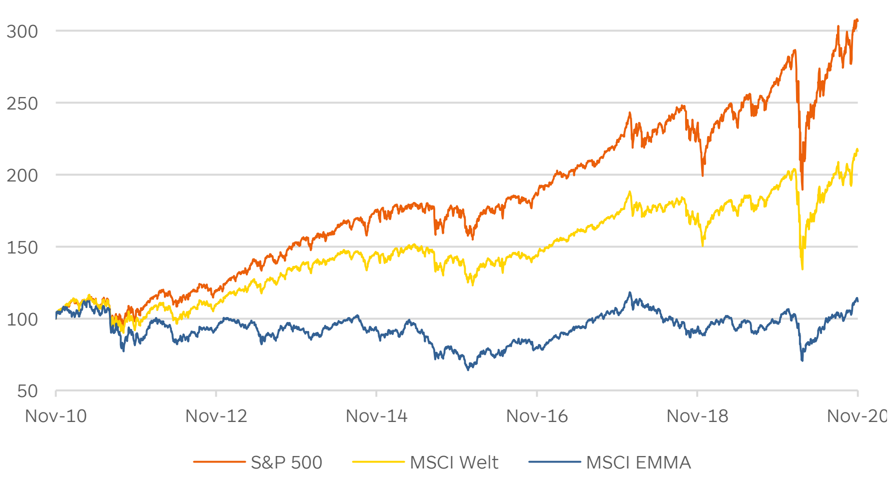
SMI +9.5%, S&P 500 +11%, Nasdaq +12%, Nikkei +15% and Euro Stoxx 50 +18%, these are the gains posted by selected equity indices in November. As mentioned above, positive news regarding Covid-19 vaccines and the outcome of the US elections led to these impressive gains in November.

"Very impressive gains in value posted by global equity markets."

As mentioned at the start of the Investment Report, we raised the equity ratio in our portfolios in November. At the regional level, we increased our exposure to Asia, where we are now overweighted. Not least because the new FTA could become a catalyst for growth in the region. In structural terms, growth potential is undoubtedly higher than in western industrialised nations, due to favourable demographic conditions and the fact that productivity remains low. In addition, in our view Asian countries are less vulnerable to crises than they were in the 1990s, especially now that they are far less indebted. The free trade area RCEP accounts for about 30% of global GDP, while its share of global stockmarket capitalisation is about half. If Asian markets continue to open up and become more transparent, the weightings in the indices should also increase, which will lead to increased capital flows towards Asia. Even if one examines the performance of various equity markets in detail, emerging markets have enormous catch-up potential.

"Increase in our exposure to emerging market equities."

Equity markets in comparison



Source: Bloomberg Finance L.P., Factum AG

In overall terms, therefore, the prospects are currently relatively rosy for emerging market equities. Given the growing economic strength of emerging markets, we consider them a useful building block in a portfolio. Because they do not perform uniformly like stocks from industrialised countries, they also contribute significantly to diversification.

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Bond markets

"Search for yield continues in the bond field."

The final outcome of the US elections has slowed the upwards correction in US bond yields. This aspect is understandable, as the absence of a Democratic majority has significantly reduced the likelihood of a major economic stimulus package. Historically, Republican senators have tended to be against high government spending. As a result, the at-times desperate search for bond market yields continues. Of late, this search for yield has also led to increased demand for riskier segments such as high-yield bonds. To achieve acceptable returns, we are investing in a mix of government and corporate bonds and inter alia use funds with active duration management. We currently have a neutral weighting for inflation-linked bonds. By contrast, we have overweighted emerging market bonds because they offer in comparison the most attractive maturity yields. Here we are focusing on hard currency bonds and on an investment solution with short duration.

Commodities

"The price of oil (WTI) rose 27% in value in November."

Market-watchers are eagerly awaiting the outcome of the OPEC meeting on production quotas. A degree of fatigue is apparent, when it comes to sticking to the reduction in production volumes. In addition, Russia would like to produce more from January onwards. The upping of production volumes by 2 million barrels from January is likely to be shelved until the second half of 2021, given the weak demand due to Covid-19. In addition, rising oil production from Libya amounting to 1.2 million barrels per day is increasing the market supply. WTI grade crude oil gained 27% in value last month. This is probably due to the fact that vaccines are about to be launched, which has strongly boosted economic confidence. A recovery in demand from the transport sector – in particular from airlines – should give a further boost to oil prices in the medium term. Another aspect that explains the rise in oil prices is related to Iran. The assassination of a senior nuclear scientist in Iran could provoke revenge acts by the Iranian government. This means the re-enactment of the nuclear treaty under the new US President Biden may now be off the table.

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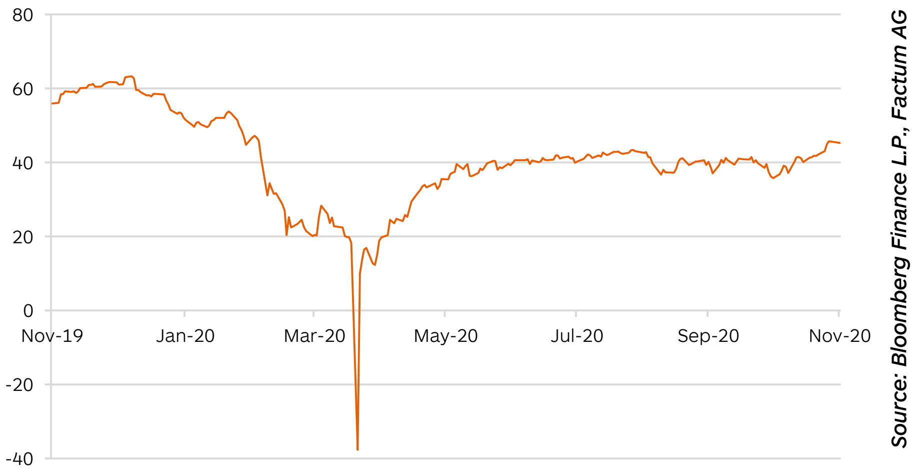
Oil price (WTI) - 1 year

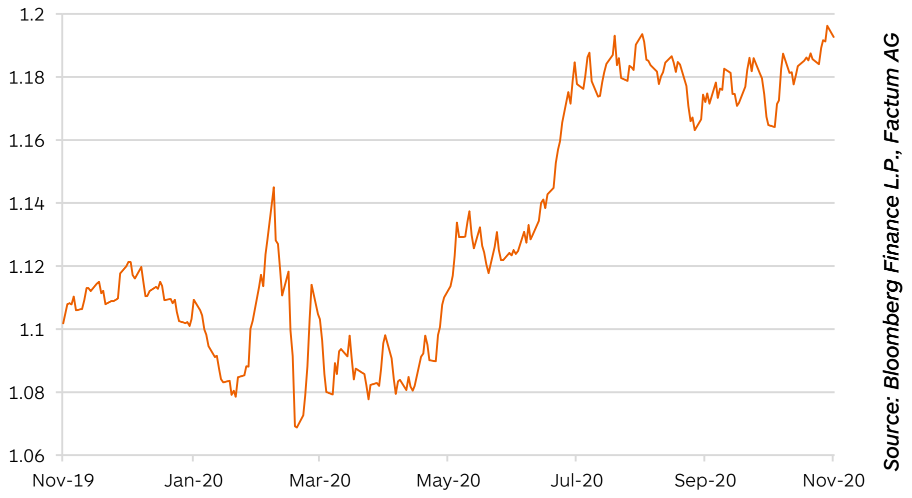


Currencies

The EUR/USD currency pair is advancing rapidly towards 1.20. In November alone, the euro gained some 2.5% against the greenback, taking it to 1.1927. The coming weeks and months will show how sustainable this development is. For example, we see potential dangers in a disorderly exit from the EU by the UK, notwithstanding a withdrawal agreement with the EU. Moreover, delays to the provision of financial aid to the countries most affected by coronavirus could stymie the recovery of the European economy. In our view, however, relatively robust fundamentals point to a strengthening of the euro.

“The value of the Euro has risen against the USD.”

EUR/USD - 1 year



Against the Swiss franc, the euro has been trading in the bandwidth of 1.06 to 1.09 for months. The sideways movement is understandable, since the Eurozone, Switzerland and the USA are all being impacted by the coronavirus pandemic. When it comes to the USD, the question is whether the weak phase will produce a counter-movement. The prospect of an expansion of quantitative easing by the Fed could, however, significantly hamper a sustained recovery in the US currency. Additional purchases of US government bonds would further depress US yields. This would then again undermine the yield advantage enjoyed by the US currency.

"The US dollar is likely to have difficulty posting gains over the coming twelve months."

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Market overview 30 November 2020

Stock indices (in local currency)	Current	1 Mt (%)	YtD (%)
SMI	10,476.43	9.41	2.05
SPI	13,003.41	8.41	1.29
Euro Stoxx 50	3,492.54	18.09	-4.30
Dow Jones	29,638.64	12.14	6.11
S&P 500	3,621.63	10.95	14.01
Nasdaq	12,198.74	11.91	37.17
Nikkei 225	26,433.62	15.04	13.77
MSCI Emerging Countries	1,205.07	9.25	10.49
Commodities			
Gold (USD/fine ounce)	1,776.95	-5.42	17.11
WTI oil (USD/barrel)	45.34	26.68	-25.75
Bond markets			
US Treasury Bonds 10Y (USD)	0.84	-0.03	-1.08
Swiss Eidgenossen 10Y (CHF)	-0.52	0.01	-0.05
German Bundesanleihen 10Y (EUR)	-0.57	0.06	-0.39
Currencies			
EUR/CHF	1.08	1.50	-0.14
USD/CHF	0.91	-0.88	-5.97
EUR/USD	1.19	2.40	6.37
GBP/CHF	1.21	1.99	-5.60
JPY/CHF	0.87	-0.54	-2.20
JPY/USD	0.01	0.32	4.14

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