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Investment Report

December 2021

Factum AG
Current positioning:

Portfolio balanced	Neutral	Current	Change*
Liquidity	3%	7%	→
Bonds	37%	29%	→
Shares	45%	49%	→
Alternative investments	15%	15%	→

**Changes since the last Investment Report (8 November 2021) & current assessment.*

Strategy overview

After raising the equity ratio at the beginning of October 2021, we used the strong global equity market recovery that manifested itself during the first half of November as an opportunity to return the equity ratio in the domestic market and in the global equities category to the tactical allocation and consequently to engage in some profit-taking.

"Rebalancing – partial profit-taking during the first half of November."

Towards the end of the month, we decided to restore the weighting in our favoured emerging market bonds in hard currencies, which had been reduced by price losses (higher USD interest rates and widening of risk premiums) as well as distributions, to the original ratio. This was achieved by acquiring units in the Barings Emerging Markets Sovereign Debt Fund.

"Building up hard currency emerging market bonds via the Barings Emerging Markets Sovereign Debt Fund."

At the end of November, a new Covid 19 variant was discovered (Omicron). This triggered considerable market upsets. For example, the S&P 500 and the Hang Seng closed around 2.5% lower, while the Euro Stoxx 50 even lost 4.5% in value. Pfizer's CEO stated, however, that a vaccine against a new variant would be available within 100 days and that four billion doses could be

"Omicron triggered some massive share price reactions."

delivered in the first twelve months thereafter. This should reassure the market going forward.

Corporate results and economic data (especially the labour market) are both very robust. Currently, there are no signs of a looming recession. Central banks will not allow monetary policy measures to jeopardise growth potential. In addition, in seasonal terms the best months to April are now coming. For this reason we are sticking to a slight equity overweight.

"Our view of the equity market remains positive, which justifies an overweight equity allocation."

Politics

Now the deal is done. At the beginning of November the US House of Representatives finally passed the infrastructure bill with votes from both political parties. Agreement on this had essentially been reached in June of the current year. Over the next few years, a sum of USD 550 billion will be spent on bridges, rail links, waterways and broadband internet. Funds are to start flowing during the second half of 2022. The lion's share, however, will not be spent until 2024, meaning that there will be a delay. The infrastructure programme will therefore only have its full effect by the time the overall economy can be expected to have recovered as a result of the massive monetary and fiscal policy measures, when it should already be working at full capacity. This could prolong the current bottlenecks in the labour market and in the supply of capital goods, extend inflationary pressures and consequently reduce the impact of the infrastructure package.

"Breakthrough for the US infrastructure programme in the United States."

Amtrak could play a special role in the infrastructure expenditure. The railway company, founded fifty years ago, is arguably facing the biggest modernisation and expansion phase in its history. USD 66 billion has been earmarked for needed repairs, station refurbishments and in particular for the busy corridor between Washington DC and Boston. Together with the modernisation of bridges and tunnels, especially along the East Coast, up to 20 million additional passengers per annum could be attracted to the service. There are also plans to connect Las Vegas or Nashville with passenger trains. In addition, entirely new connections could also be built, for example from Phoenix to Tucson or a corridor in Ohio that would link Cincinnati, Columbus and Cleveland.

"Amtrak could end up being a major beneficiary of the infrastructure spending."

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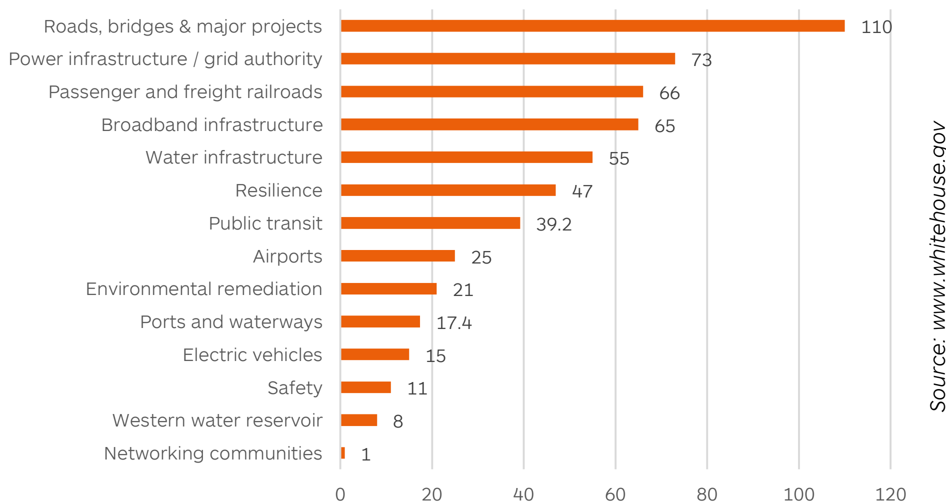

Economy

In the United States, consumer spending data reinforced the successful start to the final quarter of 2021. US households increased their spending by 1.3%, which was much more than expected. Almost half of the increase was due to higher prices, however. Adjusted for inflation, spending rose 0.7%. Nevertheless, it is important to note that higher prices have not had a dampening effect on consumption so far. The savings ratio, however, continued to slide in view of ongoing stronger growth in consumer spending compared to incomes. At 7.3% of disposable income, this is now only marginally above the long-term average of 7%. As a result, expenditure is likely to be increasingly linked to income growth once again.

"Consumer spending is booming in the USA."

Equity markets

Emergence of the new viral mutation Omicron triggered a small earthquake on global stockmarkets. Cyclical sectors came under pressure, while the more defensive sectors held up reasonably well. We remain of the view – irrespective of what impact the pandemic has on the global economy – that equities remain much more attractive than bonds. This is clearly illustrated by the risk premium, which in a simplified form places the profit yield of shares in relation to the bond yield. In Europe and in emerging markets in particular, this ratio is moving within an attractive range from a historical perspective, which is why we still consider an overweighting of the equity ratio to be justified.

"Equities are to be favoured over bonds."

Bond markets

US President Joe Biden has opted for monetary policy continuity, nominating incumbent Federal Reserve Chairman Jerome Powell, whose term is due to expire next February, for a second four-year term. The nomination still has to be confirmed by the Senate, but this should be a formality. Numerous politicians from both parties have already signalled their approval.

"Second period of office for Jerome Powell – Lael Brainard to be appointed as Deputy Chairman."

Speaking at a public Senate hearing at the end of November, Federal Reserve Chairman Jerome Powell stated that the central bank was prepared to phase out the policy of ultra-cheap money more quickly than had previously been expected, despite the concerns about a resurgent coronavirus. There is speculation that the Fed board could decide in mid-December to end the massive securities purchases equivalent to USD 120 billion per month in the coming year by as early as March instead of June. This means the taper schedule would be accelerated. Powell's comments suggest that the Fed is no longer primarily interested in promoting the further recovery of the labour market, which has long been running hot, but instead is determined to keep higher inflation rates in check. Inflation rose to 6.2% in October, the highest level it has been for 30 years. The Fed finds itself in a delicate situation in which the conflict between labour market and inflation targets is being complicated and further exacerbated by the emergence of concerns about the pandemic.

"Powell prepares investors for the end of the bond-buying programme."

Commodities

Oil prices have had a wild ride over the last few weeks. The WTI oil grade gained around 20% in September and October, then headed south by the same amount in November on speculation that the Biden administration might release some US oil reserves. The new Omicron variant was also a dampener. The price of oil then experienced a brief breather when the release of 50 million barrels of crude oil was not particularly well-received by the market. OPEC's decision to add 400,000 barrels per day to the market in January had not been expected. This came at a time when oil demand – and therefore prices – is again being threatened by the emergence of the Omicron variant. However, the decision to increase production – which was taken following the visit of a US delegation to the Gulf Cooperation Council – also comes with a get-out clause for OPEC oil producers. If market conditions deteriorate, the cartel could reverse its decision to put more oil on the market without further ado ahead of its meeting scheduled for 4 January.

"The wild ride of the oil price."

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Currencies

The euro/US dollar currency pair was trading at 1.13 at the end of November. The weakness of the euro is mainly due to diverging interest rate expectations between the two regions. For the coming quarters, the market is expecting higher interest rates for the US dollar than for the euro, as a change in key interest rates is more likely to come from the Fed than from the ECB. This makes sense within the context of recent Fed press conferences. The weakness of the euro against the Swiss franc materialised in step with the weakness of the euro against the US dollar. In the event of even more pronounced declines of the euro against the Swiss franc, the SNB can be expected to intervene again.

"The euro is weakening."

Market overview 30 November 2021

Stock indices (in local currency)	Current	1 Mt (%)	YtD (%)
SMI	12,159.69	0.43	16.85
SPI	15,532.99	-0.51	16.55
Euro Stoxx 50	4,063.06	-4.30	17.28
Dow Jones	34,483.72	-3.50	14.61
S&P 500	4,567.00	-0.70	23.17
Nasdaq	15,537.69	0.34	21.31
Nikkei 225	27,821.76	-3.71	2.92
Stocks Emerging Countries	1,212.42	-4.07	-4.21
Commodities			
Gold (USD/fine ounce)	1,774.52	-0.50	-6.52
WTI oil (USD/barrel)	66.18	-20.81	36.40
Bond markets			
US Treasury Bonds 10Y (USD)	1.44	-0.11	0.53
Swiss Eidgenossen 10Y (CHF)	-0.23	-0.20	0.32
German Bundesanleihen 10Y (EUR)	-0.35	-0.24	0.22
Currencies			
EUR/CHF	1.04	-1.58	-3.66
USD/CHF	0.92	0.31	3.81
EUR/USD	1.13	-1.90	-7.19
GBP/CHF	1.22	-2.51	1.00
JPY/CHF	0.81	1.12	-5.24
JPY/USD	0.01	0.78	-8.69

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Editorial deadline: 7 December 2021

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