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FACTUM

Investment Report

April 2021

Factum AG
Current positioning:

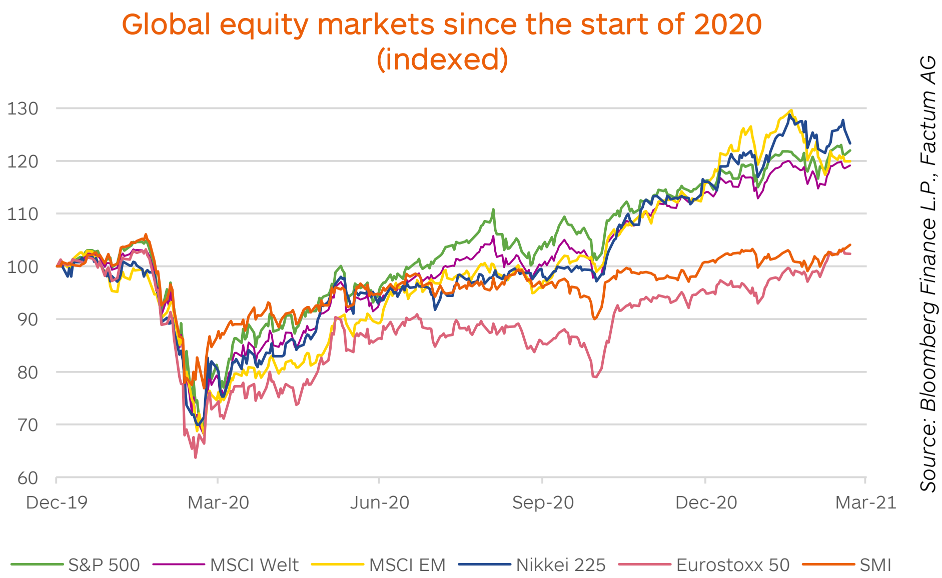
Portfolio balanced	Neutral	Current	Change*
Liquidity	3%	6%	→
Bonds	37%	29%	→
Shares	45%	48%	→
Alternative investments	15%	17%	→

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

Strategy overview

Most global equity markets have recovered markedly since the start of the coronavirus crisis in February 2020. This is also underscored by the fact that during the first quarter of 2021 global equities saw the largest quarterly inflow in history, USD 330 billion, which subsequently gave us a positive first quarter of 2021. In the first quarter of 2021, the Swiss SMI gained around 5%, the broad-based Euro Stoxx 50 11%, the US S&P 500 6%, Japan's Nikkei 7% and the MSCI Emerging Markets 2%. For a change, the performance of the Euro Stoxx 50 has been impressive. This is due to the index composition, as the IT sector is practically non-existent and the weighting is more heavily focused on the financial and industrial sectors. There was profit-taking in growth stocks from the technology sector (Nasdaq YtD; as at 31 March 2021: +3%) and there was more demand for cyclically sensitive stocks – so-called “value stocks” that have a comparatively low valuation. The key here, however, is to remain calm despite the short-term sector rotation. This is because quality exists in defensive as well as cyclical stocks and in the “value sector”. The crucial factor is and remains the fact that a recovering economy makes for higher corporate profits.

“Global equity markets continued their positive trend in Q1/21.”



Optimism is spreading when it comes to the state of the economy. Driven by an unprecedented fiscal stimulus, growth expectations for America have been revised upwards. Europe also produced unexpectedly upbeat economic data. At present, the market is assuming that global growth could increase by around 5.5% in the current year. In addition to monetary and fiscal policy support, the recovery is being bolstered to a large extent by catch-up effects in private consumption. The extent to which these effects are felt will depend largely on how the pandemic develops. The recent increase in new infections is concentrated in continental Europe and some large emerging economies. On the positive side, countries such as the USA, the UK and Israel have more advanced vaccination programmes. The highest priority for the financial markets is the rise in US bond yields. The most powerful central banks, first and foremost the Fed, do not consider the danger of inflation to be high, in view of the fact that underemployment is still high, and are determined to stick to their ultra-expansive monetary policies. In our view, the risk of inflation overshooting in the near future is low. During the course of the second half of the year, however, pressure on the central banks could increase. If they feel compelled to make more restrictive announcements, the risk of a market correction could increase. For the time being, however, global stockmarkets remain well supported, even if the risk premium has fallen in the wake of higher bond yields.

"Reflation has become a key topic of discussion on global financial markets."

The “steeper” interest curve in the USA has led to a sector rotation. In February, we took advantage of the price setbacks triggered by the increasing jittery environment to raise our equity ratio to a “marked” overweight, although the decidedly positive sentiment vis-à-vis risky investments made us somewhat hesitant. We raised the equity ratio at the expense of liquidity. In our “core mandates”, with the exception of the reference currency US dollar (where we increased the world equity ratio), we strengthened the equity ratio in the domestic market. In our “ETF mandates”, we increased the risk exposure in the “income” profile for emerging market bonds and in the “balanced” profile for emerging market equities, thus bringing the positioning closer into line with that of our “core mandates”. In overall terms, with this step we have increased our equity weighting by two percentage points relative to the start of the year.

“Most significant tactical shift in our managed mandates in Q1/21.”

After a stellar start to 2021, Chinese equities experienced a strong correction at the end of February / beginning of March (in the interim, this has amounted to minus 15% from the peak). As we are confident that domestic and consumer-dominated China A-shares will perform positively in the medium term, we have restored our ratio to the original level. Our gold position has also lost some of its shine (minus 10% since the start of the year and minus 20% since the all-time high in August 2020), mainly due to higher yields in the US and the firmer greenback. Although the fundamentals have softened somewhat (less low negative real interest rates, prospects for a strong economic recovery since vaccine approval), we consider gold to be a good diversifier in the portfolio context due to the still low opportunity costs as well as the latent risks associated with the development of the pandemic going forward. We increased our exposure in March to the original ratio, with the aim of putting our positioning to the test after a technical counter-movement.

“Our rebalancing activities in Q1/21.”

Politics

The global pandemic has once again drawn the attention of US citizens to just how weak the US social security safety net is. President Biden can now expand the welfare state; rarely before has there been less opposition to this. He is keen to get his ambitious projects passed with simple majorities in Congress. His USD 1.9 trillion Covid-19 bailout is one of the largest stimulus packages in the history of the United States and a huge economic experiment. A large part of the money is to go to American families in the lower and middle income brackets. By means of cheques, but also through a substantial hike in child allowances, which are now paid monthly, subsidies for rent and food or assistance for health insurance premiums. Biden was unable

“Biden recognises the need to bring about change as quickly as possible – mid-term elections are coming up as early as 2022, which could cost him the majority in both chambers.”

to secure a single Republican vote in Congress for the bailout package, but a large part of Republican voters approve it. According to surveys, over 70 percent of Americans are in favour. President Biden knows that voters will need to feel that these measures are indeed improving their lives. Mid-term elections are scheduled for 2022. These could cost him his majorities in both chambers and consequently the opportunity to change something in the country.

The Biden administration's USD 2.25 trillion infrastructure programme is also colossal. In addition to the construction of roads, bridges and investments in the electricity grid, broadband internet and the infrastructure of schools or childcare, this focuses largely on massive investments in American industry, especially in green technology, where new jobs are to be created, above all in the so-called "rust belt". Biden's determination needs to be underscored. With these programmes he is eclipsing most of his predecessors, including President Barrack Obama, under whom he served as Vice President. Some are already comparing Biden to Franklin D. Roosevelt, who introduced far-reaching social reforms in the 1930s. Biden himself has also let it be known that he hopes historians will compare him in the future with his great role models Roosevelt and Lyndon B. Johnson.

"It is probably too early, but Biden is already being compared with Franklin D. Roosevelt, who introduced far-reaching social reforms in the 1930s."

The US administration sent a clear signal on China policy in mid-March. Secretary of State Antony Blinken and Defence Minister Lloyd Austin visited Asia on their first trip abroad. The message soon became clear. Biden views China – as Donald Trump had done – as a growing threat. Unlike his predecessor, however, Biden is counting on close cooperation with the allies Japan and South Korea as well as India. This entails a mixture of deterrence, competition and cooperation. The itinerary of the two diplomats underscored the message. In the case of Japan and South Korea, Blinken and Austin visited allies that Trump had repeatedly snubbed with trade disputes and strident financial demands of support for the deployed troops. The US military maintains a global infrastructure with 800 bases in 70 countries, which underlines its impressive firepower. By comparison, Russia maintains 21 foreign bases and China merely four.

"Biden is relying on close cooperation with allies in the struggle against China."

Economy

"Excellent US economic data."

The US recently published some excellent economic data. For example, the ISM Manufacturing rose from 60.8 to 64.7 points, reaching its highest level in 37 years. All five components included in the index rose significantly. The ISM Services rose by no less than 8.4 points, climbing to the highest level ever measured since the survey began in 1997. According to the Institute for Supply Management, all 18 service sectors recorded growth. The underlying sub-indicators were also upbeat practically across the board. Overall, the two ISM indicators signal a very strong recovery for the US economy. The US economy can be expected to return to pre-crisis levels as early as this quarter, which is just five quarters after the recession began. Following the global financial crisis in 2008, the recession lasted a further 13 quarters.

"US consumers are also looking to the future with greater confidence again."

Against the backdrop of the recovery on the labour market and the prospect of strong government support, US consumers are also more sanguine about the future once again. Consumer sentiment recently reached the highest level seen for the past twelve months. In fact, consumer credit rose in February by the highest amount recorded since the end of 2017. The partial lifting of coronavirus measures in various states has apparently led to a prolific use of credit cards and recourse to other consumer credit. Car sales also recorded a rapid increase in March. In annualised terms, 17.75 million vehicles were sold. This was the highest figure posted since December 2017. Relative to the previous month, this constituted a sales increase of more than 13%. This is further evidence that US households are in healthy financial fettle thanks to lavish government support payments.

"Eurozone: indicators are continuing to point sharply upwards."

Despite slow progress with vaccine programmes, continuing lockdowns and rising infection figures, economic indicators in the Eurozone continue to point steeply upwards. These suggest that it is only a matter of time before the economy rebounds in the Eurozone too. We share this optimism. In the second quarter, almost four times as many vaccine doses will be delivered in the EU as was the case in the first quarter, bringing a return to normality closer. In particular, purchasing managers' indices rose sharply. According to the definitive evaluation, the economy in the Eurozone grew in March despite tighter restrictions. The purchasing managers' index for economy as a whole, the PMI Composite, increased markedly from 48.8 points to reach 53.2 points, reaching its highest level since July 2020. The preliminary estimate of 24 March was therefore exceeded by 0.7 points. The strong increase is mainly due to the robust state of the industrial sector. The corresponding purchasing managers' index hit a new record high in March (62.5 points). But there are also signs of recovery in the service sector, which has been hit hard by the pandemic. Business activity dipped only slightly and the Services PMI reached its highest level in seven months at 49.6 points. Given the widespread confidence about the next few months, employment in the services sector increased for the second straight month. In overall terms, almost all countries covered by the survey recorded positive economic growth in March. In Germany, momentum was actually stronger than it had been at any time over the past three years. Companies in the Eurozone saw their backlog of orders increase for the first time since November 2018, and the year-to-date business outlook climbed to a 37-month high.

Economic data coming out of the three main emerging markets has been mixed. In Brazil, it is clear that the sharp increase in new infections is having a negative impact on economic performance. The purchasing managers' index for the services sector and the corresponding index for the industrial sector both fell significantly in March and are now at their lowest levels since mid-2020. The PMI Services is even in deep red territory at 44.1 points. In view of the difficult pandemic situation, a further deterioration is to be expected in the spring. A recovery should then set in around the middle of the year.

"The substantial increase in new infections is impacting the Brazilian economy."

In India, the purchasing managers' indices also declined in March, but are still clearly in the expansion zone (PMI Manufacturing 55.4, Services 54.6), suggesting that growth will continue to be satisfactory. However, the sheer volume of infections is a cause for concern, as the curve of new cases has been rising steeply since mid-March. It is therefore to be feared that economic data will become gloomier in the weeks ahead and that growth will slow noticeably.

"India is also in a difficult situation as a result of surging infection rates."

In China, the purchasing managers' indices have been moving in different directions. While the PMI Services rose from 51.1 to 54.3 points and far exceeded expectations, the PMI Manufacturing fell contrary to expectations from 50.9 to 50.6 points. Nevertheless, it remains above the growth threshold of 50 points. Costlier raw materials also increased input prices significantly, causing companies to raise their prices by as much as was last seen at the end of 2016. This is also reflected in the inflation data. In March, the inflation rate rose from -0.2% to 0.4% and producer prices increased by 4.4% in year-on-year terms. This is the strongest price increase seen in more than two years. However, the surprisingly significant increase is largely due to the sharp rise in commodity prices. Consumer prices, on the other hand, con-

"The news coming out of China is mixed."

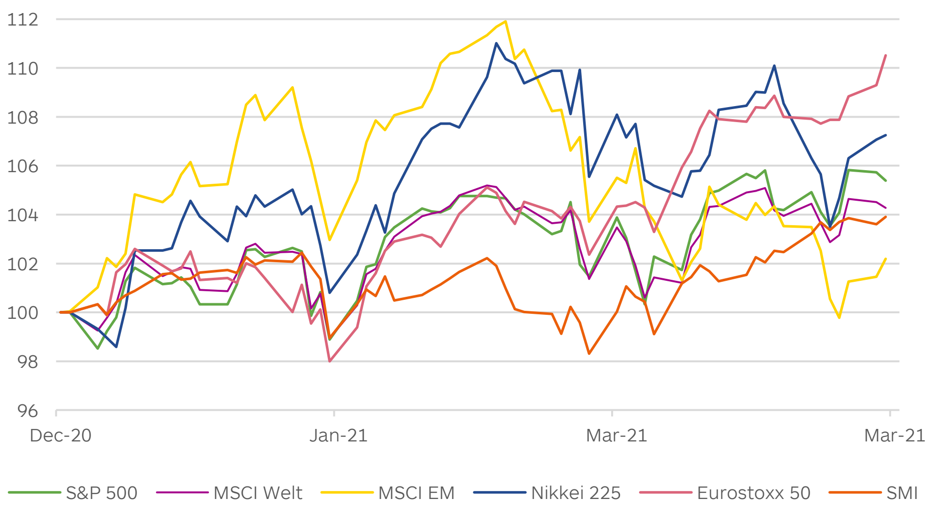
tinue to rise only modestly and provide no grounds for tighter monetary policies for the time being. In the second half of the year, however, rather more restrictive central bank policies are to be expected.

Equity markets

As the following chart shows, the first quarter of 2021 was positive for equities. Unusually, the performance posted by the Euro Stoxx 50 stands out, having gained around 11%.

"Euro Stoxx 50 posts superb Q1/21."

Global equity markets YtD. (indexed)



Source: Bloomberg Finance L.P., Factum AG

In addition, the saying is that "growth is out, value is in" – at least this has been the case in recent months. This rotation in sector and style preferences, which has been apparent for several months, gained momentum in February and March. The main driver of the acceleration was the rise in long-term bond yields in the US. The "steepening" yield curve signals rising growth and inflation expectations in America. On stockmarkets, this favours cyclically sensitive stocks from sectors such as industry, commodities, energy and finance. On the other hand, the growth favourites from years past, especially impressively valued technology stocks, are losing out, at least for the time being. For these companies, the rise in long-term interest rates has a negative impact, as a large part of their current valuation is based on expected earnings. If long-term interest rates now rise, the future profits of these companies will have to be discounted at a higher rate, reducing their current value.

"Sector rotation has gained momentum in recent months."

In our view, the positive development in the first quarter is due to the recovery in earnings prospects. In addition, ongoing expansionary monetary policies in industrialised countries will remain in place for a longer period of time, ensuring favourable financing conditions in the medium term. Against this backdrop, earnings expectations have further upside potential and should provide good support for equity markets. This ensures that the undoubtedly high valuation will decline over time, as the "E" in the price-earnings ratio (P/E) is rising faster than the "P". In overall terms, we see no reason to change our upbeat view of equity markets, which is why we have also overweighted our equity ratio.

"We see no reason to change our upbeat view of equity markets, which is why we have overweighted our equity ratio."

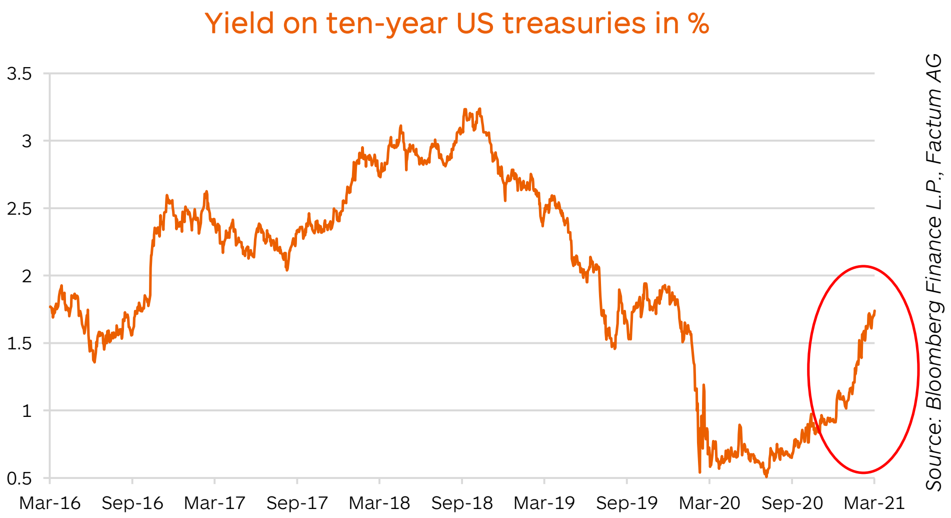
Bond markets

Monetary policies in most emerging markets are likely to remain decidedly expansionary this year. Although not everywhere. In mid-March, for example, the Brazilian, Turkish and Russian central banks took market-watchers by surprise by raising their key interest rates by more than expected. The Central Bank of Brazil took the unanimous decision to raise its key interest rate from the record low of 2.0% by 75 basis points to 2.75%. The move came in the wake of rising inflation, which at 5.2% was recently only just within the target range of 2.25% – 5.25% and well above the target value of 3.75%. The main concern for the currency watchdogs is the rise in inflationary expectations. In their baseline scenario, they see inflation averaging 5.0% in 2021, but only taking further interest rate hikes of 175 basis points into account. The Central Bank of Brazil is therefore holding out the prospect of the next interest rate step of 75 basis points at its next meeting in May. In 2022, inflation is expected to fall again to 3.5% on account of additional key interest rate hikes of 100 basis points. The Central Bank of the Republic of Turkey also raised its key interest rate more than expected by 200 basis points – from 17% to 19% – to counter high inflation and the weakness of the currency. The Central Bank of the Russian Federation followed with a surprise hike in its key interest rate from 4.25% to 4.5%. The reason given for this was rising inflationary and geopolitical risks. It announced further, gradual steps over the coming months.

"Interest rate hikes in Brazil, Turkey and Russia."

The US Federal Reserve is showing little concern about the rapid and marked rise in yields, and attributing this above all to the improved economic outlook. It has also significantly raised its economic forecasts.

"Central banks remain expansive."



For the current year it is now expecting GDP growth to reach 6.5% (previously 4.2%), along with an unemployment rate of 4.5%. The inflation forecast for this year was also increased significantly from 1.8% to 2.4%. However, the Federal Reserve once again stressed that this was only a temporary increase. The forecast for 2022 therefore increased only marginally from 1.9% to 2.0%. It therefore intends to stick to its expansive monetary policy course and firmly rejected a premature reduction in securities purchases (tapering) or even an increase in the key interest rate. At the press conference that followed the interest rate decision, Fed Chairman Jerome Powell again pointed out that it was still too early to discuss reducing bond purchases. After all, despite a strong economic rebound, we are still a long way from the employment and inflation targets set by the Federal Reserve. Powell also made it clear that monetary policymakers base their monetary policy decisions on actual progress and not on economic forecasts. They want to see inflation above two per cent. In addition, another 10 million people still need to find employment. Against this backdrop, we think it likely that the Fed will reduce bond purchases during the course of the second half of the year. In our view, however, the first interest rate hike is unlikely to materialise before 2023. The other major central banks of industrialised countries, the Bank of Japan, the European Central Bank and the Bank of England have also confirmed their expansionary monetary policy course. The European Central Bank had already announced the week before that it would be temporarily expanding its securities purchase programme significantly in order not to jeopardise the favourable financing conditions.

Commodities

Due to the significant support programmes and the concomitant strengthening of the global economy, cyclical commodities reacted positively – mainly oil – because demand increased strongly. Defensive sectors such as precious metals, on the other hand, came under pressure. It is important to note that commodity investments are anything but homogeneous and the factors determining price performance are extremely complex. Almost in step with the rise in US interest rates in 2020, cyclical commodities also moved north. The increase in prices started with agricultural commodities and industrial metals. Then oil prices began a strong rally. In recent years, the dominant topic has been oil production, but now a significant recovery in demand is occurring, causing prices to rise. The price of a barrel of WTI crude oil has risen by around 22% in the current year.

"Homogeneous price development in the commodity sector."

After gaining 25% last year, the price of gold shed 10% of its value during the first quarter of 2021. At the end of March, the price of gold dropped to the vicinity of USD 1,685 per troy ounce. It has since recovered by around USD 65 (3.5%) to reach around USD 1,750.

"After gaining 25% last year, the price of gold shed 10% of its value during Q1/21."

Gold price over twelve months

The question that needs to be asked, of course, is whether a sustainable trend reversal has now set in. Now, in our view, the reasons for the slide in the price of gold are as follows: An anticipated significant recovery of the global economy, higher interest rates at the long end in the US, and the US dollar recently manifesting signs of strength. As a result of the recovery of

"The recovery of the global economy is currently weighing down on the gold price."

the global economy, gold is no longer “en vogue” as a safe haven. This is further reflected by the fact that risky assets recently gained strongly in value, resulting in the sector rotation. The economic recovery is already likely to have been priced into financial markets to a large degree. If disappointments materialise here, this will help support the price of gold.

As a result of the expected economic recovery, interest rates have risen significantly – 10-year US government bonds from 0.50% last summer to 1.70% at present. As nominal interest rates have risen more strongly than inflationary expectations, real interest rates are also trading higher. This is squeezing the price of gold, which does not generate an income stream, even though real yields in America are still well in negative territory. If interest rates continue to rise, this will become a problem at some point, as neither the state nor many companies can afford this as a result of their substantial debt burdens. Stockmarkets are also likely to run into problems once interest rates reach a certain level, since falling yields were one of the pillars of the equity boom.

“Rising interest rates are putting additional pressure on the performance of the gold price.”

So if interest rates were to rise again rapidly from their current levels, this could undoubtedly weigh down on the economy and stockmarkets, making gold more attractive once again. If stockmarkets get the jitters, gold offers protection as a safe haven. In our view, however, we consider it more likely that the Fed could introduce a yield curve control, as already practised in Japan or Australia, to dampen the rise in interest rates in the autumn. This would put a cap on government bond yields. The Fed could then buy up government bonds with freshly printed money. This process would almost certainly lead to higher inflationary expectations, which in turn would lower real interest rates, weaken the US dollar and boost the price of gold. Another negative factor for the US dollar is that as soon as vaccination campaigns in Europe and the rest of the world get up to speed, America’s growth lead is likely to narrow markedly.

“It doesn’t take much to shift sentiment.”

From a chart perspective, the support zones at USD 1,650 to USD 1,675 per troy ounce are likely to hold. The chances of a turnaround and thus higher prices exist at a price above USD 1,760. For a definite confirmation of the end of the correction phase, the ounce price would have to trade above USD 1,815 for an extended period.

“The gold price from a chart perspective.”

We still consider gold to be an established portfolio component in our managed portfolios and, apart from our equity mandates, hold a ratio – depending on the particular strategy – in the range of 2%-5%. As mentioned at the

“We are sticking to our gold overweight for the present.”

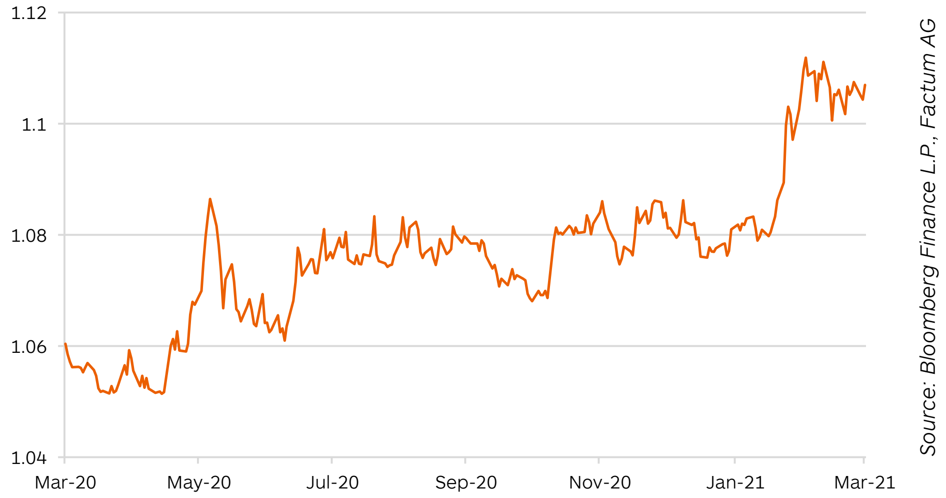
outset, we rebalanced our exposure in March with the intention of critically reviewing our weighting after a technical counter-movement, and then making adjustments if and when necessary.

Currencies

The Swiss franc has weakened vis-à-vis the euro in recent weeks, passing the psychologically important CHF 1.10 per euro mark. The recent weakness is mainly due to the increasing availability of vaccines around the world. For this reason, the Swiss franc is less in demand as a safe haven. At the present time, it also seems that the structural deficiencies of the monetary union have receded into the background. In addition, the SNB is pursuing an expansive monetary policy, and a departure from this is unlikely at present. The recent devaluation of the Swiss franc suits the SNB just fine. It means it can reduce the scope of its intervention in foreign exchange markets. This means the weakness of the Swiss franc is likely to continue for the time being. In our view, the currency is unlikely to weaken above the CHF 1.13 per euro mark in the coming months.

"The Swiss franc is losing value against the euro."

EUR/CHF over twelve months



The Swiss franc is showing weakness not just against the euro, but also against the US dollar. At the start of the year, the greenback was still below CHF 0.88 against the Swiss franc; by the end of March, it had risen to CHF 0.93. The GBP/CHF currency pair is also trading back at 1.30, which corresponds to a gain of +7.5% in 2021. It is not just the major currencies that have appreciated against the Swiss franc. A look at the twenty most important currencies relative to the Swiss franc shows how broad the weakness is.

"Reflation is not boosting the Swiss franc."

Since the start of the year, the majority of these have appreciated. This trend turnaround can be explained by reflation. After the pandemic and the associated economic worries, all indicators are pointing to growth once again. In particular, the currencies of commodity-rich countries such as Australia, Canada, New Zealand and Russia have been posting gains. The progress made by vaccination programmes around the globe and the associated slow return to normal life is reducing the attractiveness of the Swiss franc. It tends to strengthen when the indicators point to stormy weather. However, the signs are currently pointing to an easing of the situation, as the USD 1.9 trillion stimulus package in the USA is likely to give the economy an additional boost. The weakness of the Swiss franc should be a bonus for the Swiss export sector in particular. However, it is questionable whether this is heralding a sustained decline in the value of the Swiss franc, especially against the US dollar and the euro. This is because the Fed and the ECB have reiterated that they will be sticking to their expansive monetary policies and consequently to low real interest rates. In our view, however, rising real yields will be needed before the euro is able to post a long-term recovery against the Swiss franc.

FACTUM

Market overview 31 March 2021

Stock indices (in local currency)	Current	1 Mt (%)	YtD (%)
SMI	11,047.37	6.43	4.63
SPI	14,015.01	6.70	5.16
Euro Stoxx 50	3,919.21	7.92	10.78
Dow Jones	32,981.55	6.78	8.29
S&P 500	3,972.89	4.38	6.17
Nasdaq	13,246.87	0.48	2.95
Nikkei 225	29,178.80	1.27	6.93
MSCI Emerging Countries	1,316.43	-1.51	2.21
Commodities			
Gold (USD/fine ounce)	1,707.71	-1.52	-10.04
WTI oil (USD/barrel)	59.16	-3.80	21.93
Bond markets			
US Treasury Bonds 10Y (USD)	1.74	0.34	0.83
Swiss Eidgenossen 10Y (CHF)	-0.28	-0.08	0.28
German Bundesanleihen 10Y (EUR)	-0.29	-0.03	0.28
Currencies			
EUR/CHF	1.11	0.90	2.38
USD/CHF	0.94	3.86	6.60
EUR/USD	1.17	-2.86	-3.98
GBP/CHF	1.30	2.79	7.52
JPY/CHF	0.85	-0.01	-0.51
JPY/USD	0.01	-3.76	-6.68

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