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Investment Report

April 2023

Factum AG
Current positioning:

Portfolio balanced	Neutral	Current	Change*
Liquidity	3%	4%	-2%
Bonds	35%	35%	+2%
Equities	47%	44%	→
Alternative investments	15%	17%	→

**Changes since the last Investment Report (10 March 2023) & current assessment.*

Strategy overview

The mood in the first quarter of 2023 can be aptly described as somewhere "between hope and fear". Thanks to the relatively mild winter and the lifting of the "zero-covid" policy in China, the economy in the industrialised countries and especially in Europe did not slide off the cliff in January. However, the investment climate did become much frostier again in February. Stubbornly high inflation figures and correspondingly restrictive tones of the Western central banks led to rising interest rate expectations, which again triggered setbacks on the stock market but especially on the bond markets. Just remaining calm and waiting until there was more clarity about the further development seemed to us to be the right motto.

"The mood in the first quarter of 2023 can be aptly described with the following wording: Between hope and fear."

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At the end of March 2023, we decided to raise the bond ratio to a neutral level, since the general financing conditions had deteriorated massively due to the tense situation in the (US) banking sector and the risk of a significant economic slowdown had thus increased. Given the current yields, a higher bond quota should be able to somewhat cushion any losses on the equity side. This move was made via the global bond quota.

"We have raised the bond quota to neutral."

Since an economic slowdown in the past has usually been accompanied by a decline in corporate earnings, we are still holding back on a more offensive positioning in terms of equity exposure, as we believe that the market is still too optimistic in this respect.

Equity markets

As already mentioned, the performance of the stock markets in the first quarter was like a roller coaster ride. In January, the markets initially celebrated a brilliant comeback after corporate profits turned out significantly better than expected. The hope of escaping a recession and the prospect of an impending end to interest rate hikes (or even the first interest rate cuts this year) put investors in an extremely positive mood. At the same time, concerns about inflation were almost forgotten. Disillusionment followed in February, when the persistence of high inflation became clear. Then, the central banks reaffirmed their course to restore price stability, even at the risk of a recession. Finally, the collapse of the Silicon Valley Bank (see separate section) in March sparked fears of another banking crisis like the one in 2008. However, when these fears turned out to be unfounded, investor confidence in an imminent end to tight monetary policy rose again. As a result, almost all stock markets were able to build on the strong start to the year at the end of the quarter and more or less make up for the setbacks of February and March.

"The development of the equity market in the first quarter was like a roller coaster ride."

Despite the currently very "cheerful" investor mood, the central question still remains as to whether a recession can be avoided in view of the restrictive monetary policy. It may take a few months to answer this question, although the first negative signs of monetary tightening are gradually becoming visible. Our positioning is based on four indicators (economic development, valuation, technology and sentiment) and not on emotions. Two indicators point to a negative equity environment and two to a neutral one. As a result, we are currently positioned with an underweight in the equity quota.

"As a result, we are currently positioned with an underweight in the equity quota."

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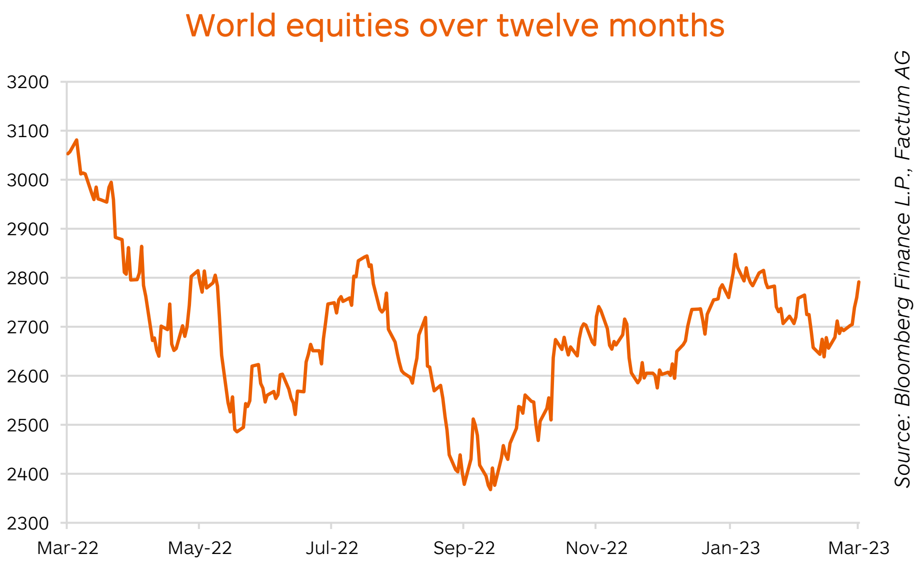


Special topic: Banking crisis

In the USA, the Silicon Valley Bank (SVB) collapsed on 10 March and was forced to file for bankruptcy shortly afterwards. Following the collapse of the Washington Mutual Bank in 2008, this was the second largest failure in the US banking history since the Federal Deposit Insurance Corporation (FDIC) was established in 1934.

"Fear of a déjà-vu."

Rising interest rates were the cause of the collapse of the SVB. During the COVID pandemic, the technology sector experienced strong growth, which also increased the deposits of clients at the SVB. These were mainly tech start-ups and venture capital firms. To benefit from this, the bank invested a large part (almost 60%) in long-term government bonds. The rise in interest rates in 2022 and the resulting tightening of financing conditions in the wake of the tech crisis forced the customers of the SVB to increasingly draw on their savings and withdraw money. The market value of the long-term bonds fell at the same time. In order to service the cash outflows, the SVB had to sell bonds and realise substantial losses as the interest rate risk was not hedged. The subsequent efforts of the bank to shore up the balance sheet caused worried depositors to accelerate their withdrawals - the classic vicious circle of a bank run.

In Switzerland, the crisis of confidence hit the already struggling Credit Suisse the hardest. Due to the numerous scandals and management errors of recent years, the bank had already been confronted with significant client

"After 167 years, Credit Suisse is now history."

money outflows. Even a 50 billion emergency loan from the SNB could not restore the dwindling confidence. As a result, the government, in cooperation with the SNB and Finma, orchestrated a takeover of CS by UBS at an almost symbolic price of about CHF 3 billion. This was again done under emergency law, bypassing the required shareholder approval.

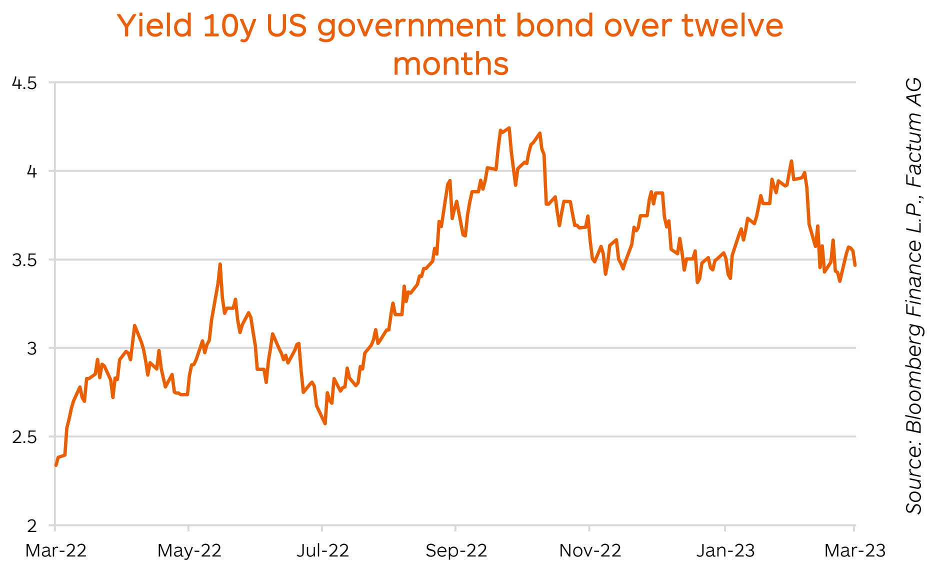
Despite the turbulence, we do not expect a collapse of the global financial system. The defaults of the individual banks are more attributable to company-specific problems that were exposed by the higher interest rate environment. However, it is likely that the profitability of the banking sector will suffer from falling interest margins and tighter financing conditions in the future.

Bond markets

"An end to the cycle of interest rate hikes is in sight."

The historically steep cycle of interest rate hikes by central banks is likely to come to an end in the course of the second half of 2023. The Fed raised interest rates by 25 basis points twice in the first quarter of 2023, which is already a significant increase compared to the previous year. The bad news from the banking sector did not lead to an escalation, but made the Fed more cautious about the future. The markets are currently pricing in a further interest rate hike of 25 basis points in May, after which interest rates are likely to remain at this level. If the economy can hold up, interest rate cuts are not expected for the time being. The European Central Bank ECB also implemented two rate hikes of 50 basis points each. The unchanged rise in core inflation dampened hopes for a less restrictive monetary policy in the European region. Due to the robust start of the economy and the persistently high figures for core inflation, further interest rate hikes cannot be ruled out.

The first quarter was quite positive for the bond asset class. At the beginning of March, 10-year Bundesanleihen reached new highs of 2.77%. In the meantime, a clear decline has become visible and Bundesanleihen are now yielding 2.29%. The 10-year US government bonds also briefly traded above 4.00% in March and, after hectic ups and downs, fell back to their current level of 3.47%. Despite the decline, the high yield levels continue to offer attractive entry opportunities, which prompted us to raise the bond quota to a neutral level. In our view, the bond market offers protection against an economic slowdown and is likely to remain a profitable asset class this year.



Commodities

First things first: Despite rising interest rates, we consider gold to be an important diversifying portfolio component in the long term. Since its low in October, the price per ounce has risen by more than 20%. Sustained high inflation data, increasing expectations of first interest rate cuts in the second half of the year as well as stress in the banking sector ensured that gold lived up to its reputation as a safe haven again in recent weeks. In the meantime, the price has risen to over USD 2,000 per ounce. The continuing geopolitical uncertainties surrounding Taiwan and the overvaluation of the US dollar currently argue for even higher prices. On the other hand, the opportunity costs measured in terms of real interest rates or the heavily overbought situation call for caution. All in all, the positive and negative arguments are balanced at present, which is why we continue to prefer a neutral position.

"Gold prices defy higher money market rates."

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Gold price over twelve months

Source: Bloomberg Finance L.P., Factum AG

Currencies

The US dollar has recently tended to weaken again, which is due on the one hand to the dwindling yield differential for fixed-interest investments. On the other, the growth differential of the US economy has worsened in the meantime, both against the developed countries and the emerging markets.

"The price of the US dollar tends to weaken."

USD Index (DXY) over twelve months

Source: Bloomberg Finance L.P., Factum AG

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Market overview 31 March 2023

Equity indices (in local currency)	Curent	1 Mt (%)	YtD (%)
SMI	11,106.24	1.59	5.09
SPI	14,547.08	1.70	5.91
Euro Stoxx 50	4,315.05	2.01	14.32
Dow Jones	33,274.15	2.08	0.93
S&P 500	4,109.31	3.67	7.48
Nasdaq	12,21.91	6.78	17.05
Nikkei 225	28,41.48	3.04	8.45
Emerging markets	990.28	3.04	3.97
Commodities			
Gold (USD/fine ounce)	1,969.28	7.79	7.96
WTI oil (USD/barrel)	75.67	-1.79	-5.72
Bond markets (change in basis points)			
US Treasury Bonds 10Y (USD)	3.47	-0.45	-0.41
Swiss Eidgenossen 10Y (CHF)	1.25	-0.22	-0.37
German Bundesanleihen 10Y (EUR)	2.29	-0.36	-0.28
Currencies			
EUR/CHF	0.99	-0.44	0.26
USD/CHF	0.92	-2.86	-1.00
EUR/USD	1.08	2.49	1.25
GBP/CHF	1.13	-0.38	0.87
JPY/CHF	0.69	-0.45	-2.35
JPY/USD	0.01	2.49	-1.31

Author: Factum PM-Team
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