Für Ihr Vermögen.

FACTUM

Investment Report

July 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 (6 June 2023) & current assessment.*

Strategy overview

The second quarter of 2023 was an excellent one for global equities. They gained around 8% in value in the quarter that just ended. The conflict over a possible US default was averted and the debt ceiling was subsequently raised for the 79th time. Another positive factor was the strong labour market report in the USA, which clearly exceeded market expectations. The interest rate screws of the central banks have continued to be turned diligently. In all countries and regions, inflation rates have been on the retreat for several months, but are still well above the respective central bank targets. The European Central Bank raised interest rates by 0.25% to 4% and the Swiss National Bank also adjusted its key interest rate by 0.25% to 1.75%. After ten interest rate hikes in a row, the US Federal Reserve decided to lay low for once. However, a further rate hike of 0.25% at the end of July is very likely. Consequently, in the short-term, monetary policy is likely to remain restrictive, increasing the downside risks for the economy.

"Excellent second quarter for global equities."

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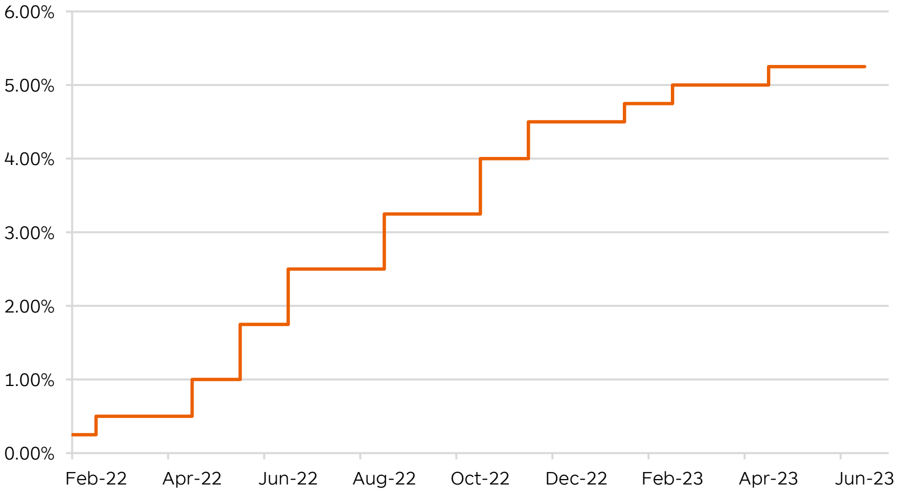
Fed funds rate



Source: Bloomberg Finance L.P., Factum AG

However, there are also factors that cushion the downward momentum. In the US, households are less highly in debt than in previous phases of an economic downturn. The service sector still remains resilient. It is compensating for the recession in the industrial sector, which in turn bolsters the labour market. Overall, companies have robust balance sheets and banks are better capitalised than in the past. Nevertheless, the economic slowdown will continue and a recession is likely. However, we still regard the chances for a mild course to be intact. In our view, equity and bond markets do not adequately reflect the macroeconomic environment, which is why they remain vulnerable to any corrections. In the wake of the strong recovery of the equity markets in June, we discussed our equity quota in the Investment Committee. Although parts of the equity market are clearly overbought and the sentiment indicators also speak for a cautious positioning, we have not reduced the equity quota any further. We currently consider a slight underweighting of the equity quota in the asset management mandates we manage to be justified and focus on quality and stability.

"Entering the second half of the year with caution."

Politics

At the beginning of June, the US reached an agreement on raising the US debt ceiling. The agreement provides for the ceiling to be raised for two years, while capping spending during this period. The US was in danger of running out of money at the beginning of June because the previous Congressional threshold had capped public debt at around USD 31 trillion. The agreement has been received favourably by the international financial markets. Unfortunately, this annoying topic raises its ugly head at regular intervals, which keeps the markets on tenterhooks. For example, in July 2011, just two days before the deadline, an agreement was reached but the damage had already been done. At the time, the broad S&P500 lost 17% of its value,

“At the beginning of June, an agreement was reached on raising the US debt ceiling.”

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bonds and gold prices soared and the US lost its AAA rating from Standard & Poor's.

The agreement on raising the debt ceiling is without doubt something positive. In the medium term, however, the agreement will not significantly improve America's long-term risky fiscal course. The national debt has increased significantly since the financial crisis of 2008, and after the Covid pandemic, government spending and budget deficits seem to have got completely out of control. In any case, from a long-term perspective, the agreement will only marginally curb excessive government spending, as it only applies to about one-third of the federal budget. The trend of rising costs for compulsory expenditures such as social security and Medicare, as well as interest on debt, will remain untouched.

"A lasting solution to the debt issue has not been reached."

The most powerful man in Turkey over the past twenty years will remain in office for the next five years. At the end of May, the incumbent Recep Tayyip Erdogan won the run-off against his challenger Kemal Kilicdaroglu with 52% to 48%. This brings to an end an election that was considered open for a long time, but which in the end hardly led to any significant shifts. On the other hand, however, five years ago Erdogan won in the first round of the elections.

"Incumbent Erdogan has won the run-off election for president."

Erdogan's election victory cannot make the precarious economic situation simply disappear. The central bank has managed to keep the lira relatively stable in recent months with support purchases. But now the reserves are coming to an end. If the government does not announce a turnaround in economic policy, the exchange rate of the lira is likely to weaken significantly.

"Turkey with economic problems."

Economy

At present, the US economy seems to be defying all odds (sharply higher interest rates and tighter credit conditions). The labour market remains tight and the housing market (building permits, housing starts) is showing signs of stabilisation. In late June, the Bureau of Statistics announced that GDP growth (annualised) in Q1 2023 was 2.0%, not 1.3% as originally reported. The reasons for the resilience of the US economy still lie in private consumption, with consumers (despite higher prices) still drawing on the savings surplus accumulated during the pandemic. Demand for services is the main positive feature, as the purchasing managers' indices for the manufacturing sector continue to show a contraction with values below 50.

"The US economy seems to be defying all odds at the moment."

In Europe, too, the economic slump has failed to materialise, even though Germany, usually the economic locomotive of the region, has been showing negative growth for two quarters. Here, too, private consumption, especially in the service sector, is supporting the economy.

"In Europe, too, private consumption is providing support."

In China, the euphoria of the turn of the year, which was triggered by the lifting of the Zero Covid measures, has calmed down considerably. Although some indicators have returned to pre-pandemic levels, the world's second-largest economy is still not expected to match its previous growth figures. In contrast to the industrialised countries, China is showing disinflationary tendencies. It is expected that the government will launch further stimulus programmes after the interest rate cuts. However, these will not be comparable to those after the financial crisis or after the lockdown of the economy in the spring of 2020.

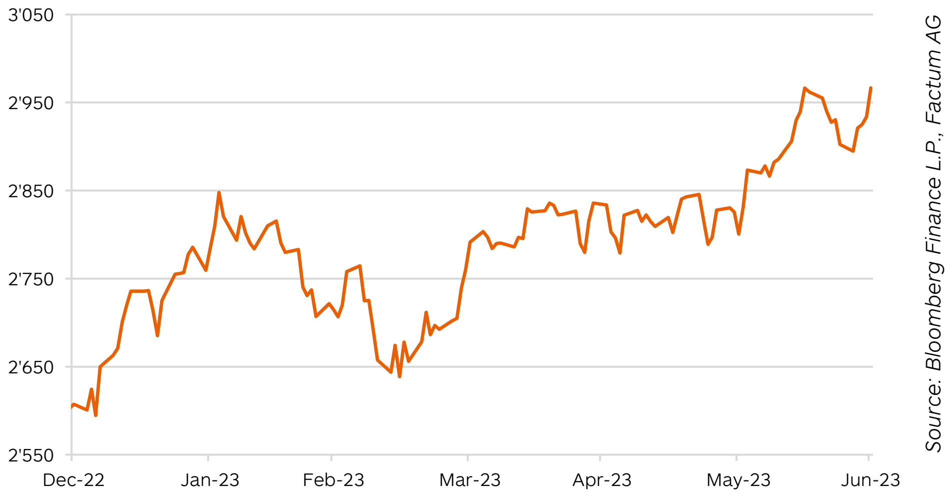
"China cannot match the growth figures of previous years."

Equity markets

Investors have been very optimistic, especially in recent weeks, and the first half of the year brought a return - including dividends, world equities rose by around 15% in US dollar terms - which, from a historical perspective, would only be achieved in two years.

"The first half of the year brought a return which, from a historical perspective, would normally be achieved over a period of two years."

World Equities Index 2023 - 1st half-year



In our view, the second half of the year is likely to be more challenging, which is underpinned by our currently rather cautious positioning in equities. The first half of the year was by no means a one-way street, as the chart above clearly shows. The regional banking crisis in America, the aggravating conflict over raising the debt ceiling in the USA as well as the political and geopolitical environment have repeatedly been sources of conflict that have caused nervousness and, as a result, setbacks in share prices. The price advances that have been observed since the end of May have been mainly driven by individual US technology stocks, while not much was felt in Europe and the rest of the world. Large American tech companies were the big winners in the first half of the year. The US technology stock market, for example, gained around 33%. Japan should also be highlighted, with the Nikkei advancing by around 29%. The Swiss Market Index is in the lower middle range with a gain of around 8%, with the Chinese stock market bringing up the rear.

"In our view, the second half of the year is likely to be more challenging."

There is no doubt that the index heavyweights (US technology stocks) have moved away from the rest of the market, which is usually a phenomenon that indicates an exaggeration because the market breadth for a sustainable bull market does not exist. Artificial intelligence (AI) is without doubt a mega-trend which needs to be taken seriously. We believe that the market tends to overshoot in the short term and underestimate the impact on the overall situation in the longer term during such developments. As we mentioned at the outset, we consider a slight underweight in the equity quota to be adequate for the moment, whereby a balance between growth and value equities still makes sense.

Bond markets

"The central banks set the tone."

Central bank policy continued to dominate developments on the interest rate markets in the first half of the year. While, in June 2023, the Federal Reserve paused for the first time after one of the strongest interest rate hike cycles (plus 500 basis points) in recent history, the European Central Bank (ECB) and the Bank of England (BoE) increased their rates by 0.25% and 0.50%, respectively. The Swiss National Bank also raised the key interest rate again in June by 25 basis points, although the absolute interest rate level in Switzerland remains very low compared to the other Western industrialised countries.

"The yield curves have become even more inverted."

The central banks' continued resolute action has led to an even stronger inversion of the yield curves. It was only with the publication of the US Federal Reserve's minutes a few days ago (further interest rate hikes seem likely) that long-term interest rates also broke out of their sideways trend and rose significantly in the direction of their 2023 highs.

High-yield bonds and the emerging market bond market have held up well so far this year despite the prevailing economic uncertainty.

Commodities

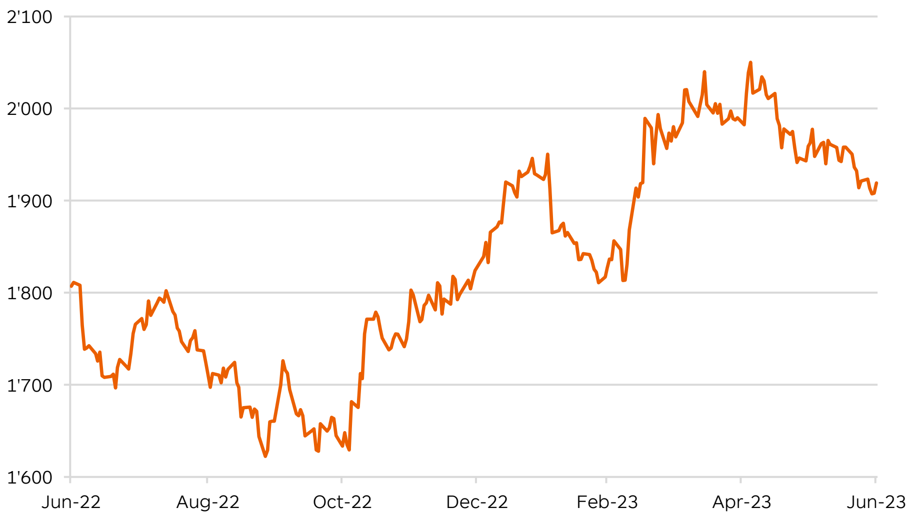
"We are maintaining our neutral gold quota."

At the end of June, gold dropped to its lowest level since March at around USD 1,890 per ounce. The probability of further interest rate hikes has recently increased again and this has significantly reduced the attractiveness of non-interest-bearing assets such as gold. USD positioning has widened again on the short side and is trading slightly above the neutral zone. Following the neutral phase, we have seasonally entered a positive one.

Real interest rates and their trend change still speak against a strong upward push in the gold price. Speculative positioning in the US dollar has deteriorated slightly due to the negative correlation with the gold price. From a chart based perspective, the price seems to be stabilising around USD 1,900 per troy ounce. However, the all-clear will only be given again when prices are above USD 1,930. The price of gold tends to be positive in the months of

July to September. With the price gains since the beginning of the year, the sentiment towards gold as an asset class has recovered somewhat. We are maintaining our neutral gold position - which corresponds to 3% in a mixed portfolio - and, in the context of the portfolio, continue to consider the position justified.

Gold price over twelve months



Source: Bloomberg Finance L.P., Factum AG

Currencies

Not only is the Swiss franc showing a period of strength vis-à-vis the euro this year, but also against the US dollar. The strength vis-à-vis the euro can be explained by the stronger economic situation in Switzerland. While the eurozone economy showed a decline, a technical recession, during the last two quarters, the Swiss economy showed growth. The US dollar is falling against the Swiss franc as the interest rate differential in 10-year bond yields has narrowed at the expense of US rates. This is due to continued Swiss interest rate hikes since the fourth quarter of 2022. We continue to expect a relatively stable Swiss franc, even though geopolitical tensions have receded somewhat into the background. However, neither the Ukraine war nor the sabre-rattling between America and China have really eased off.

The period of strength of the Swiss franc continues."

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Market overview 30 June 2023

Equity indices (in local currency)	Current	1 Mt (%)	YtD (%)
SMI	11,280.29	0.58	8.29
SPI	14,861.77	0.50	8.20
Euro Stoxx 50	4,399.09	4.35	19.18
Dow Jones	34,407.60	4.68	4.94
S&P 500	4,450.38	6.61	16.88
Nasdaq	13,787.92	6.66	32.32
Nikkei 225	33,189.04	7.56	28.65
Emerging markets	989.48	3.83	5.02
Commodities			
Gold (USD/fine ounce)	1,919.35	-2.21	5.23
WTI oil (USD/barrel)	70.64	3.75	-11.99
Bond markets (change in basis points)			
US Treasury Bonds 10Y (USD)	3.84	0.19	-0.04
Swiss Eidgenossen 10Y (CHF)	0.96	0.07	-0.66
German Bundesanleihen 10Y (EUR)	2.39	0.11	-0.18
Currencies			
EUR/CHF	0.98	0.37	-1.27
USD/CHF	0.90	-1.66	-3.13
EUR/USD	1.09	2.06	1.91
GBP/CHF	1.14	0.34	1.62
JPY/CHF	0.62	-5.05	-12.08
JPY/USD	0.01	-3.44	-9.14

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