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Investment Report

January 2022

Factum AG
Current positioning:

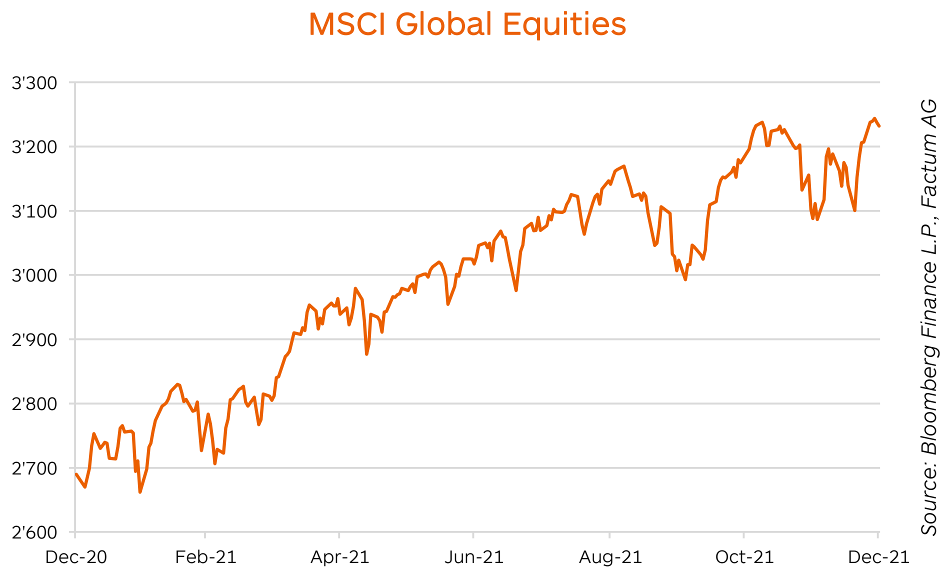
Portfolio balanced	Neutral	Current	Change*
Liquidity	3%	7%	→
Bonds	35%	29%	→
Shares	47%	49%	→
Alternative investments	15%	15%	→

**Changes since the last Investment Report (07 December 2021) & current assessment.*

Strategy overview

"2021 – the bull market continued."

The 2021 stock exchange year was tempestuous in many respects. The first half of the year in particular was characterised by upbeat economic and earnings figures. The broad MSCI Global Equities Index, for example, gained 22% in value. During the second half of the year, in September to be precise, "customary" nervousness returned and caused the first price slide of over 5% in more than 220 days. This was triggered, inter alia, by rocketing infection rates, global supply chain bottlenecks, rising inflation figures and the Chinese real estate developer Evergrande, which has got itself into serious difficulties. The situation was compounded by geopolitical tensions such as the conflict between China and Taiwan, with the Chinese government headed by Xi Jinping making territorial claims. Stockmarkets in the West gained in the order of 20%, while emerging markets struggled and China even posted losses. Major central banks maintained their bond-buying programmes and the Fed was forced to change course at the end of 2021. On bond markets, higher yields led to a slightly negative development. On international currency markets, the US dollar gained due to the anticipated increase in key interest rates this year, while the euro came under pressure last year and shed around 4% in value against the Swiss franc.



The last two pandemic years have seen the negative impact of the pandemic on the global economy gradually fade. Businesses and households have adapted their behaviour and learned to cope with the virus. We therefore maintain our fundamentally optimistic outlook for 2022. Positive fundamental economic data coming out of the private sector supports this forecast: Households and businesses continue to have substantial savings, and credit conditions remain attractive. Certain sectors such as the service sector are still being hit hard by the pandemic, tourism in particular. This is opening up opportunities for 2022. Due to these considerations, we are expecting the global economy to perform above its potential rate of growth in the current year. Of course, we remain aware that geopolitical uncertainties such as the recent military build-up on the border with Ukraine can drive up the jitters barometer on investment markets, and significant price fluctuations cannot be ruled out in the short term. We also take a cautiously optimistic stance on the hotly debated topic of inflation and expect the currently very high inflation rates – in the USA inflation is higher than at any time in the past 40 years – to gradually decline over the course of the next few quarters. Central to this is the assumption that supply chain bottlenecks and labour market shortages will gradually ease.

"Outlook 2022: Opportunities remain intact, although it will be difficult to outperform the past investment year."

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The Strategy Committee at Factum AG Asset Management decided to make some changes in December (based on the reference currency Swiss franc). Amongst other things, the equity ratio was increased at the strategic asset allocation (SAA) level. Here, the share of the domestic market was raised to the tactical ratio. At the same time, the global equity ratio was increased to neutral at the expense of global equities (currency-hedged). The aforementioned shift away from global equities (currency-hedged) to global equities increases the strategic foreign currency ratio by between 3.5% – 5%, depending upon the risk profile.

"Strategic asset allocation (SAA) – annual review by the Strategy Committee."

Emerging equity markets, as measured by the performance of the MSCI Emerging Market Index, were among the worst performers last year. After in-depth discussions in the Investment Committee, we decided to maintain our overweight in this category. For risk considerations, we switched the majority of our exposure to a passive index product (iShares MSCI Emerging Markets UCITS ETF) and sold Vontobel's VT mtx Sustainable Emma Leaders.

"We now cover the majority of emerging equity markets passively."

Against the backdrop of the above, we are starting the new investment year with an overweight of the liquidity ratio. We will only be making interim allocations to protect the capital base or to take advantage of investment opportunities that may arise. On account of the interest rate situation, we are underweighted in the bond field. Yields on first-class government bonds are still at very low levels and are therefore not interesting. 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 have neutrally weighted inflation-protected bonds and emerging market bonds. The equity exposure is overweighted, whereby we took advantage of the correction in September last year and increased our exposure. In our view, maintaining a balance between "growth" and "value" stocks makes good sense. We have neutrally weighted alternative investments. For diversification reasons, we still consider the inclusion of hedge funds in the portfolio to be adequate. In addition, we have invested a portion in global real estate stocks with attractive returns under the heading of alternative investments. The gold position has proven to be a diversifier and remains a fixed portfolio component, not least against the background of sudden geopolitical escalations. A detailed breakdown of our current positioning is shown on page one.

"What is our positioning as we go into the 2022 investment year?"

Politics

Selected headlines 2021:

7 January: Furious supporters of Donald Trump, after he had been elected out of office, stormed the Capitol in Washington, causing worldwide consternation.
13 February: After Italian Prime Minister Giuseppe Conte resigned due to a government crisis, Mario Draghi took over as Prime Minister.
13 April: US President Joe Biden pledged to withdraw all troops from Afghanistan by 11 September.
26 September: In the 2021 German general election, the SPD emerged as the strongest party, edging ahead of the CDU/CSU.
22 October: Tensions between China and Taiwan rose again – USA pledged support to Taiwan.
6 November: US Congress approved a USD 550 billion infrastructure programme.
8 December: The newly elected Federal Chancellor Olaf Scholz (SPD) took the oath of office in the German Bundestag.

"The mid-term elections in November 2022 will be a major political event."

At the political level, there will be no shortage of headlines this year either, and global players like the US and China are likely to dominate these. Over the past twelve months we addressed a whole variety of topics in this Report, such as the breakthrough in the US infrastructure programme in the United States. What might develop into a dominant topic in 2022? The mid-term elections on 8 November 2022 will certainly be very important. On this occasion, all 435 seats in the House of Representatives will be up for election, as well as around one third of the 100 Senate seats. Ratings for the incumbent US President Joe Biden are dismal. In a worst case scenario, he could lose control of both houses. These would then fall to the Republicans, leaving the incumbent as a "lame duck" president. The precipitous Afghanistan withdrawal, higher crime and inflation rates and the weak grip on the pandemic are not finding favour with voters. Biden had boasted, when he came into office, that he would bring the pandemic to its knees "through the power of science". According to a recent survey, 55% are dissatisfied with the work of his administration. If Biden and the Democrats do not get a grip on these issues, things will be looking bleak. This was shown by regional elections in the State of Virginia last November. Post-election surveys have shown that the extended school closures in the first pandemic year under the Democratic-led regional government caused many swing voters to switch their support to the Republicans. In particular, white female voters be-

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tween the ages of 20 and 50 have distanced themselves from the Democrats. Republicans are using parental dissatisfaction of public-sector schools to channel criticism of further aspects of the state education system, which is dominated by Democrats. For example, they have accused Democrats of indoctrinating children in public-sector schools with socialist ideas and the contentious critical race theory. Conservatives claim that instead of simply imparting knowledge in classrooms, pupils are being indoctrinated to become left-wing activists.

One year after his defeat, Donald Trump is still hovering over the US political stage like a phantom. Like no other president before him, he is continuing to set the agenda in his party. In addition, Trump's "stop the steal" movement is growing steadily. Around 60% of all Republicans are now firmly convinced that Joe Biden stole the last election from Trump. In the view of some observers, if popular discontent continues, the Republicans could comfortably win the upcoming mid-term elections. Trump could welcome the capture of the House of Representatives and of the Senate as a personal success, and then announce his presidential candidacy for 2024 with a fanfare.

"Trump has gone – yet he remains omnipresent."

China's aggressive behaviour towards Taiwan and Russia's build-up of troops along the border with Ukraine highlight the fact that geopolitical risks have increased of late. In our view, the biggest risk emanates from China, which is becoming increasingly dominant and aggressive. At the same time, however, strong economic ties – especially between the USA and China – should stop the two adversaries becoming engaged in a direct confrontation. However, a glance at history shows that in the past, persistent disputes between hegemonic powers and economically emerging countries have often spiralled into military conflicts. On the plus side, however, it is noticeable that Biden and Xi Jinping are seeking dialogue and thus constructive solutions.

"Geopolitical risks have increased of late."

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Economy

The global economy continued to recover from the coronavirus shock over the course of the past twelve months, although there were some major regional differences. We were conscious of the potential for higher inflation. On the one hand, this is because of the enormous expansion of the money supply and, on the other hand, because of various structural factors that are driving up prices, such as stalled globalisation, higher inventory levels as a safeguard against crises, more broadly diversified and therefore more expensive supply chains, higher environmental protection standards and the declining labour force participation rate in many countries. Inflation rates in many countries and regions around the world did indeed develop much more strongly than we had expected last year. Because of government support payments during the pandemic, household demand remained robust and was largely concentrated in demand for consumer goods. As a result, the second half of the year saw drastic supply chain bottlenecks, labour shortages and rising energy prices. In the USA, for example, the inflation rate rose to 6.8% at the end of the year, the highest level recorded since 1982. Even in the Eurozone, which has been plagued by concerns about deflation for many years, inflation recently hit 4.9%, the highest level since the introduction of the euro. There has also been a huge increase in inflation in many emerging markets.

"2021: The Fed is expecting the global economy to rebound strongly."

It is essentially the case that we remain optimistic for the year 2022. Positive fundamental economic data coming out of the private sector support this forecast. Households and businesses continue to have substantial savings and credit conditions remain attractive. Moreover, despite last year's remarkably strong growth, the recovery from the pandemic still has further untapped potential. This is primarily due to the service sector, which is still being hit hard by the pandemic, above all tourism. For the global economy as a whole, we are expecting growth to be approximately 4%, which is around 1% above the estimated potential rate of growth.

"We remain essentially positive for the 2022 investment year."

We also take a cautiously optimistic stance on the hotly debated topic of inflation and expect the currently very high inflation rates – in the USA inflation is higher than at any time in the past 40 years – to gradually decline over the course of the next few quarters. Central to this is the assumption that supply chain bottlenecks and labour market shortages will gradually ease.

"When it comes to inflation, we are cautiously optimistic."

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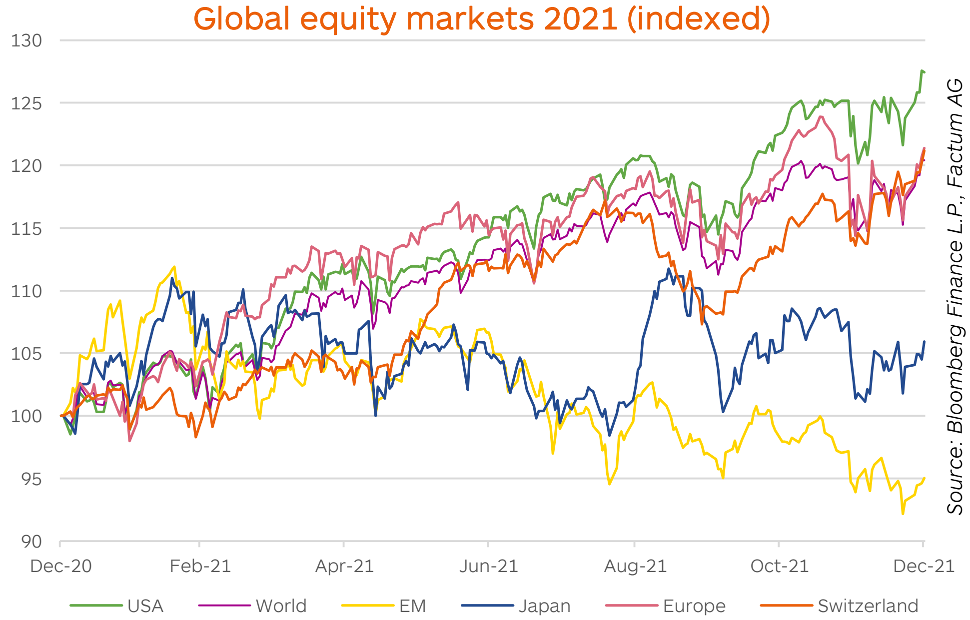
Equity markets

The 2021 stockmarket year was extremely positive. Most stock exchanges posted substantial gains. Stockmarkets in the West gained in the order of 20%, while emerging markets struggled and China even posted losses. The Swiss stockmarket was one of the strongest performers, gaining around 24%. On average over the last 30 years, the Swiss stockmarket has performed slightly better than 10% per annum. The 2021 stock exchange year was therefore above-average. It ranks eighth in the hit list since 1990. Once again, the USA performed better than average – the US equities index S&P 500 rose by around 29%. This was again attributable to high-growth technology stocks, which make up a significant proportion of the index. Within this context, Apple, Microsoft, Alphabet (Google), Amazon, Tesla, Meta Platforms (Facebook) and Nvidia account for around 25% of the index and generated around 36% of the index gain. At the end of 2021, Apple's stockmarket capitalisation topped the USD 3 trillion mark – which corresponds, for example, to a factor of 1.5 of all 40 Dax companies. In overall terms, the price gains posted in 2021 were significantly higher than most investment specialists had forecast, including ourselves. Although 2021 was marked by the coronavirus pandemic, it also brought about the strong economic recovery we had been expecting. In 2021, the global economy is expected to have grown by around 6%, having contracted 3.3% in the previous year. Corporate earnings grew by more than 50% last year, laying the bedrock for bullish equity markets.

"Tech companies have profited from the coronavirus pandemic."

We are very much aware that it will be difficult to top the last stockmarket year. Negative real bond market yields remain a central issue when it comes to stockmarket valuations, however. This still results in a high risk premium for equities, which is extremely positive for further price developments. So long as this remains the case, investors will continue to favour equities.

"Investors continue to favour equities."



Bond markets

When it comes to monetary policy, heightened inflationary pressures are not without consequences. While many central banks in emerging countries have already made their monetary policy less expansive in the past year, and in some cases have already hiked key interest rates significantly, central banks in industrialised nations have so far held back. The situation is very much under review, however. The US Federal Reserve has already announced that it will accelerate its normalisation of monetary policy and end bond purchases earlier, in order to give itself greater flexibility in its key interest rate policy. We are now expecting an initial rate hike in June at the latest. For the 2022 investment year, three to four interest rate hikes are to be expected in the USA. The Bank of England was the first major central bank amongst industrialised countries to approve an interest rate hike in mid-December. At least two further rate moves are likely to follow this year. The Bank of Canada will also be raising its key interest rates this year. The European Central Bank, the Bank of Japan and the Swiss National Bank, on the other hand, will in all likelihood again leave key interest rates unchanged this year. However, inflation rates in these countries are also likely to be significantly lower. In many emerging markets, the interest rate cycle is now well advanced, but the end of the line has not yet been reached.

"The Fed will raise interest rates no later than in June of this year."

Against this monetary policy backdrop, the relatively moderate decline in inflation and persistently above-average economic growth, long-term government bond yields are likely to continue to rise. In the US, we are expecting

"Long-term government bond yields are expected to rise."

the yield on 10-year government bonds to reach 2.1% by the end of the year. In Switzerland, the 10-year yield on Eidgenossen government bonds is likely to edge above the zero percent line. Consequently, the rise in yields this year will be broadly similar to last year, when US yields rose by around 60 basis points and Swiss yields by around 40 basis points. In historical terms, however, these are still markedly low yields. If one considers real returns in the US, the situation looks bleak. At minus five percent (1.5% yield on ten-year US government bonds minus the inflation rate), this has actually reached its lowest level since the beginning of the 1950s.

Yield on ten-year US treasuries in %

Source: Bloomberg Finance L.P., Factum AG

Commodities

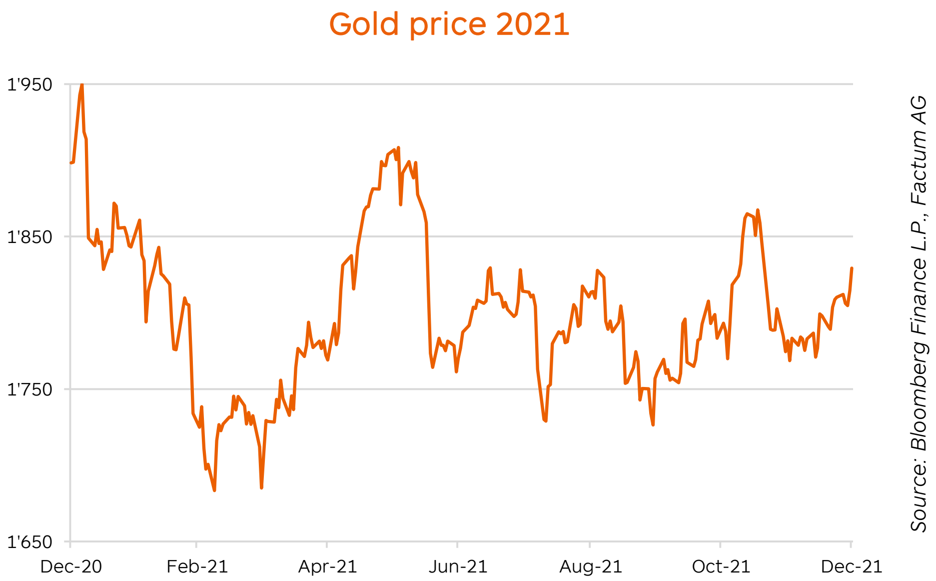
Due to the significant increase in inflation, especially in the United States, negative real interest rates and the geopolitical risks that increased significantly at the end of the year, the price of gold has developed disappointingly. At the end of the year, the price of gold was just short of USD 1,830 per ounce, corresponding to a loss of almost four percent. Investors took profits during the past investment year, as is illustrated by the outflows in gold ETFs. Another negative aspect is the interest rate reversal in the US, which is lifting the opportunity costs of interest-free gold.

"The performance of the gold price was disappointing last year."

When it comes to physical supplies, it is important to note that gold mining companies have not been expanding their gold production. For the present, they are preferring to strengthen their balance sheets and therefore to buy back debt. Some investors are expecting higher dividends to be paid out, and the market sees share buybacks as a sign of good governance. Many commodity companies currently have little capital at their disposal to invest

"We are holding on to the gold mining fund we have deployed in homeopathic doses."

in their core business. The three outlined aspects are clearly supportive for the gold price. We are holding on to the gold mining fund we have deployed in homeopathic doses.



The latest Fed minutes point to a clear short-term roadmap. The pace of tapering will be accelerated. The securities buying programme will be phased out entirely by the end of March 2022. For the current year, we are expecting the Fed to approve three or four interest rate hikes in the US. Now that medium-term inflation expectations have stopped rising and growth expectations remain above the potential rate of growth, real interest rates are likely to have bottomed out. Of late, these have generally been moving sideways. Despite heightened volatilities, consensus expectations continue to be “risk-on”. This is reducing its characteristic as a safe-haven asset. In technical chart terms, the price of gold appears to have levelled off. While valuations are slightly elevated, sentiment certainly cannot be said to be euphoric. Positive and negative arguments more or less even each other out, which is why a neutral rate is still appropriate in our view. Depending on the particular risk profile, we hold between 2% and 3% of the precious metal.

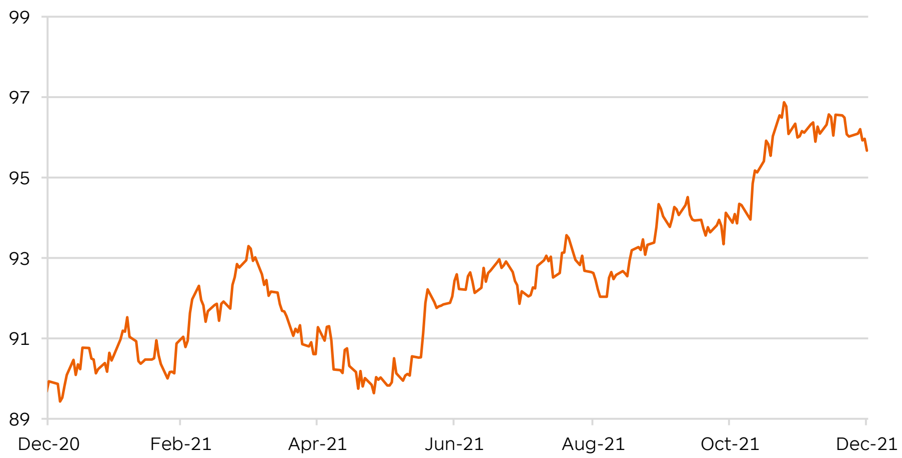
“We are currently expecting three to four rate hikes in the US in 2022.”

Currencies

There are nearly always reasons to doubt the substance as well as the future outlook for the greenback. That was certainly not the case in 2021, though. Despite the massive budget deficit of up to 17 percent of gross domestic product and notwithstanding the huge national debt, the US dollar gained vis-à-vis most of the world's currencies. At times, relative to the Turkish lira, the US dollar rose in value by up to 160 percent. It also gained against the euro (7%) and the Swiss franc (3%). The reason is relatively simple. On the one hand, it has recovered from the bout of weakness in 2020, when the Fed was the first to open the monetary and fiscal floodgates to an extent previously unseen in order to combat a feared economic depression. On the other hand, others promptly followed suit, so that the relative balance between, say, the enormous stimulus measures in the Eurozone and those in the USA were redressed.

"The US dollar gained against most other currencies in the past year."

US Dollar Index 2021



Source: Bloomberg Finance L.P., Factum AG

In the interim, there is no denying that the US economic powerhouse is overheating, upward pressures on prices are enormous and this combination will force the Fed to tighten its hitherto extremely expansive monetary policy faster and more substantially than, for example, the ECB or the SNB. Yields in the USA are already significantly more attractive than in Germany or Switzerland. If the yield differential were to widen further, it would become increasingly attractive for foreign investors – especially if the US currency was able to post additional gains.

"Yields in the USA are significantly more attractive than in Germany or Switzerland."

“How realistic is a soft landing?”

In the best of all worlds, the US Federal Reserve might even manage to facilitate a so-called soft landing. In this scenario, economic growth would cool down in such a way that inflation would slowly ease off from its peaks without provoking a recession and without overly affecting the earnings performance of US corporations. Economic history teaches us, however, that a soft landing is very difficult to achieve in practice. Paul Volcker succeeded in 1983 – 1984 as well as at the beginning of the 1990s, as did Alan Greenspan in 1994. Both raised key interest rates by 300 base points. While this made financial markets nervous, it did not actually trigger a recession.

Market overview 31 December 2021

Stock indices (in local currency)	Current	1 Mt (%)	YtD (%)
SMI	12,875.66	5.89	23.73
SPI	16,444.52	5.87	23.38
Euro Stoxx 50	4,306.07	6.00	24.10
Dow Jones	36,398.08	5.70	20.95
S&P 500	4,778.73	4.75	28.68
Nasdaq	15,741.56	1.37	22.21
Nikkei 225	28,791.71	3.60	6.62
MSCI Emerging Countries	1,222.75	1.05	-2.47
Commodities			
Gold (USD/fine ounce)	1,829.20	2.26	-3.64
WTI oil (USD/barrel)	76.99	16.33	55.01
Bond markets			
US Treasury Bonds 10Y (USD)	1.51	0.06	0.60
Swiss Eidgenossen 10Y (CHF)	-0.13	0.10	0.42
German Bundesanleihen 10Y (EUR)	-0.18	0.17	0.39
Currencies			
EUR/CHF	1.03	-0.66	-4.04
USD/CHF	0.91	-0.58	3.13
EUR/USD	1.13	-0.11	-6.93
GBP/CHF	1.23	0.97	1.94
JPY/CHF	0.79	-2.24	-7.53
JPY/USD	0.01	-1.66	-10.25

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