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Investment Report

August 2021

Factum AG
Current positioning:

Portfolio balanced	Neutral	Current	Change*
Liquidity	3%	9%	→
Bonds	37%	29%	→
Shares	45%	47%	→
Alternative investments	15%	15%	→

**Changes since the last Investment Report (05 July 2021) & current assessment.*

Strategy overview

Recently published economic indicators and statements issued by central banks corroborate our forecast that the economy is booming and that monetary policy support will remain intact, at least for the next few months. On the cyclical side, aggregate demand remains high as the elimination of supply constraints will still take some time to resolve. We see potential risks in connection with the spread of the delta variant and persistently high inflation. There is unlikely to be any major shift in monetary policy and the Fed's tapering of bond purchases – at the end of 2021 or beginning of 2022 – is already largely likely to have been factored into prices. At the portfolio level, we continue to consider a moderate overweighting of the equity ratio to be justified.

"At the portfolio level, we continue to consider a moderate over-weighting of the equity ratio to be justified."

Within the global equity ratio, we replaced the passive portfolio component in mid-July. We sold the ETF (iShares MSCI World SRI) in favour of an index fund (State Street World ESG Screened). Both funds belong to the "ESG universe", but differ in terms of the investment universe and the relative

"Transaction in July in our managed portfolios."

weighting of individual stocks. This enables better account to be taken of the twin goals of “ESG approach” and low “tracking error”.

Politics

At the end of July, the US Senate initiated legislation for a USD 550 billion infrastructure package with a bipartisan majority. The vote was preceded by weeks of tough negotiations. Democrats around US President Joe Biden, who have 50 seats in the Senate, needed to gain the support of at least ten Republicans to initiate the legislative process. 67 senators voted in favour of the initiative, 32 were opposed. The package, according to a White House statement, will include USD 550 billion for new federal government investment in America' infrastructure, creating millions of jobs, and will be spread over five years. Biden, who had campaigned intensively in support of the package for months, welcomed the compromise. It is the most significant long-term investment in US infrastructure and competitiveness in nearly a century.

“US Senate targets USD 550 billion infrastructure project.”

The funds are to be used in the coming years to invest in roads, bridges, ports, airports, local transport and railways. In addition, funds are earmarked for the modernisation of the power supply and the expansion of charging stations for electric cars.

“The funds will go towards US infrastructure over the next five years.”

Biden had initially announced plans in the spring to spend around USD 2 trillion on infrastructure upgrades over the next eight years. However, the scheme and the planned financing through tax increases failed to win the support of Republicans.

“The Democrats had initially wanted to launch an infrastructure programme to the tune of USD 2 trillion.”

Senate Democratic majority leader Chuck Schumer has now said that the goal is to complete the infrastructure package and negotiations on the next budget before the August summer recess. The precise scope and content of the infrastructure package could, however, still be changed by the legislative process in the Senate and subsequently in the House of Representatives.

“The infrastructure programme still has some hurdles to clear.”

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Economy

The US economy grew much more slowly in the second quarter of 2021 than had been forecast. Annualised GDP grew 6.5%, almost two percentage points weaker than expected. At second glance, the disappointment is somewhat less pronounced. This is because relatively high levels of underlying economic activity can be discerned in the details. For example, the most important growth drivers – consumer spending and business investment in equipment and software – performed above average. Growth was held back by foreign trade, inventories, housing construction and government spending. Supply-side bottlenecks are likely to explain much of the weakness, especially in the fields of inventory investment and housing construction. It proved difficult to replenish depleted inventories, and many construction companies had difficulty stocking up on materials. As a consequence, although high demand from households and businesses was met in the quarter under review, this was increasingly done at the expense of inventories. The already apparent pent-up demand to boost inventories has thus become even greater. Corporate investment should also continue to contribute to the expansion as companies respond to high demand and continue to invest.

"Growth expectations in the Americas clearly fell short in Q2."

The economy in the Eurozone grew more strongly than expected in the second quarter of 2021, according to a preliminary estimate by Eurostat. Gross domestic product increased 2.0% relative to the previous quarter. This brought the Eurozone out of the recent recession caused by the sharp increase in new infections over the winter months and the corresponding restrictions. Amongst the major economies, Spain (+2.8%) and Italy (+2.7%) recorded the strongest growth, followed by Germany (+1.5%) and Belgium (+1.4%). By contrast, the expansion in France (+0.9%) was relatively modest. Leading indicators suggest that the recovery is currently gaining further momentum and that the cyclical peak has not yet been reached. At the same time, the high vaccination rate should limit the downside risks from the recent increase in new infections.

"Stronger than expected recovery in the Eurozone in Q2."

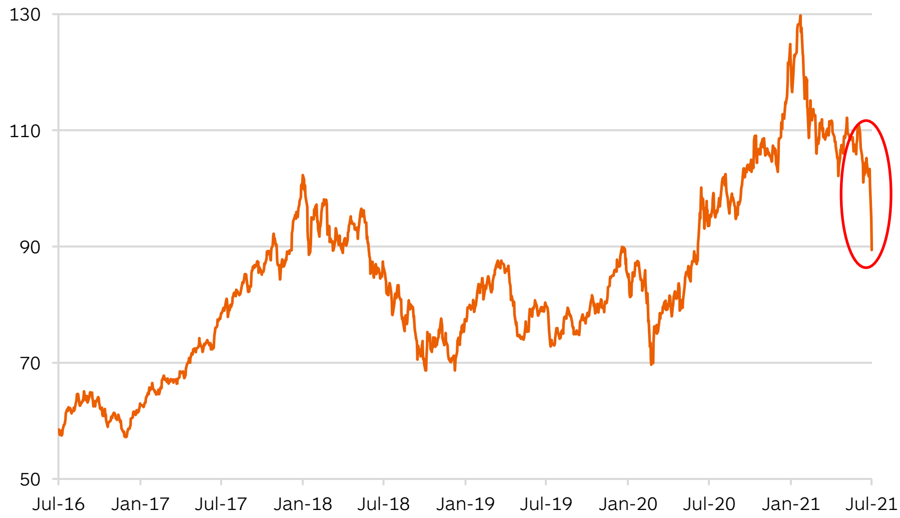
Equity markets

The Chinese government has been intervening in the corporate sector with regulatory measures since the end of the New Year holiday in mid-February. The technology and communications sector as well as the health sector were primarily affected by this. In July, however, the campaign reached a new level with measures taken against the education sector, triggering considerable uncertainty. The announcement on 23 July that private education platforms must now be non-profit came as a big shock to the Chinese stockmarket. The first companies affected lost over 70% of their market capitalisation in

"Regulatory provisions are unsettling China."

some cases, and shock waves spread to the rest of the market. For example, the MSCI China lost around 19% of its value in July alone, as the following chart shows.

MSCI China over five years



Source: Bloomberg Finance L.P., Factum AG

For the Chinese government, this intervention was probably prompted by the desire to safeguard social stability. The brutal competition that Chinese children face to access the best university places has led parents to pay for additional tutorial programmes offered by private companies. This competition and the associated expense could be one reason that families are only having one child. However, China recently announced the end of the one-child policy in order to revive a declining population.

"Reporting season provides further grounds for optimism."

Quarterly figures for the second quarter are not set to be published for a few weeks. As an interim conclusion, however, it can be said that the vast majority of companies surprised on the positive side, as had been the case in previous quarters. In their outlooks, companies are more confident than had previously been anticipated. Major uncertainty factors include supply bottlenecks for preliminary and intermediate products. However, there are increasing rays of hope when it comes to eliminating bottlenecks in the value chain. While this good news is broadly being welcomed by investors, the price reactions are less euphoric than in previous reporting seasons. This indicates that investor expectations are now relatively high. To date, around 60% of companies in the S&P 500 have reported their second quarter results. Of these, 88% were able to exceed earnings expectations, which is significantly higher than the five-year average of 75%. On average, profits exceeded estimates by more than 17%. In terms of sales, 88% of companies also exceeded estimates, with the five-year average of 65% also being exceeded by a comfortable margin.

Bond markets

“Fed takes another step towards tapering.”

The US Federal Reserve is keeping its foot on the accelerator in terms of monetary policy, despite the economic upturn and rising inflation. At the two-day meeting in mid-July, US monetary watchdogs decided to leave the target range for the key interest rate at the current level of 0% to 0.25%. Securities purchases of USD 120 billion per month will also be maintained in full. At the same time, though, the Fed signalled that the economy has made further progress towards the Fed's targets. However, further progress is still needed. In particular, the recovery of the labour market is still “some way off”, as Fed Chairman Powell stressed at the press conference. Risks to the economic outlook also remain. According to the Fed statement, the recovery of the US economy remains contingent upon further progress against the coronavirus pandemic. However, there is no longer said to be a “significant” link. When it comes to the spread of the delta variant, Powell took the view that this wave is unlikely to have as great an economic impact as the earlier waves. This means it will not have such a major effect on the tapering schedule. Rising inflation does not seem to be causing the monetary authorities any undue concerns either. In any case, the statement maintains that this is a largely temporary development. We continue to expect that the advance announcement on tapering will be made at the Fed meeting in September and will be accompanied by more specific information about detailed arrangements. In the fourth quarter, the Fed is expected to take the definitive decision to reduce its bond purchases – probably starting at the beginning of 2022.

Commodities

"Improved picture for the price of gold – we are maintaining our neutral weighting.”

The price of gold gained around 2.50% in July. The prospect of continued loose monetary policy on the part of the US Federal Reserve put pressure on the US dollar, which provided support for the yellow precious metal. The negative impact of the US dollar has thus eased markedly. Negative real interest rates and above all the recent trend are arguments in favour of gold, in addition to seasonal factors. Despite the criteria we are monitoring, which show an improved picture over the last few weeks, we are not changing our current positioning and still take the view that a neutral weighting is justified.

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Currencies

In the current year, currency markets have been characterised more by so-called reciprocal volatility than by clear trends. Amongst other things, the greenback has been moved vis-à-vis the Swiss franc and to a large extent also against the euro by two opposing forces. On the one hand, the significant fiscal stimulus has produced an interest rate advantage for the US dollar, which has widened even further relative to 2020. On the other hand, precisely this fiscal stimulus is also leading to a burgeoning US budget deficit in comparison to the development of budget deficits in Europe. In general terms, this is not helping the US currency. For this reason it would therefore not come as a great surprise if, for example, the euro were to move in a range of a few percentage points around 1.19 against the US dollar for an extended period of time, with corresponding swings in both directions.

"Currency markets are characterised by reciprocal volatility with no clear trends."

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Market overview 30 July 2021

Stock indices (in local currency)	Current	1 Mt (%)	YtD (%)
SMI	12,116.82	1.46	16.32
SPI	15,578.26	1.51	16.88
Euro Stoxx 50	4,089.30	0.75	17.47
Dow Jones	34,935.47	1.34	15.31
S&P 500	4,395.26	2.38	17.98
Nasdaq	14,672.68	1.19	14.26
Nikkei 225	27,283.59	-5.23	0.21
MSCI Emerging Countries	1,277.80	-6.69	0.28
Commodities			
Gold (USD/fine ounce)	1,814.19	2.49	-4.43
WTI oil (USD/barrel)	73.95	0.65	52.41
Bond markets			
US Treasury Bonds 10Y (USD)	1.22	-0.25	0.31
Swiss Eidgenossen 10Y (CHF)	-0.37	-0.15	0.18
German Bundesanleihen 10Y (EUR)	-0.46	-0.25	0.11
Currencies			
EUR/CHF	1.07	-2.02	-0.60
USD/CHF	0.91	-2.06	2.34
EUR/USD	1.19	0.10	-2.83
GBP/CHF	1.26	-1.60	4.07
JPY/CHF	0.83	-0.86	-3.66
JPY/USD	0.01	1.30	-5.81

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