Für Ihr Vermögen.

FACTUM

Investment Report

August 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 (11 July 2023) & current assessment.*

Strategy overview

July was another positive month on the financial markets. In particular, equities were able to set a positive tone - supported, for the most part, by good corporate results. Emerging market equities and the Nasdaq, which is dominated by mega-cap technology stocks, led the way, while the European markets, and above all the Swiss stock market, recorded only moderate gains.

"Equities continue to have a boost in July."

The trend in interest rates was upwards, as neither the signals from the inflation front were clear, nor were the comments of the "central bankers" on the interest rate decisions that had been made. The FED, the ECB and the Bank of England each raised their reference rates by 25 basis points.

The Swiss franc, which continues to tend towards strength, was also conspicuous in July. This was especially the case against the US dollar, where levels were reached that were last seen after the lifting of the euro-Swiss franc exchange rate floor in January 2015.

"Is the Swiss franc so strong or all the others so weak?"

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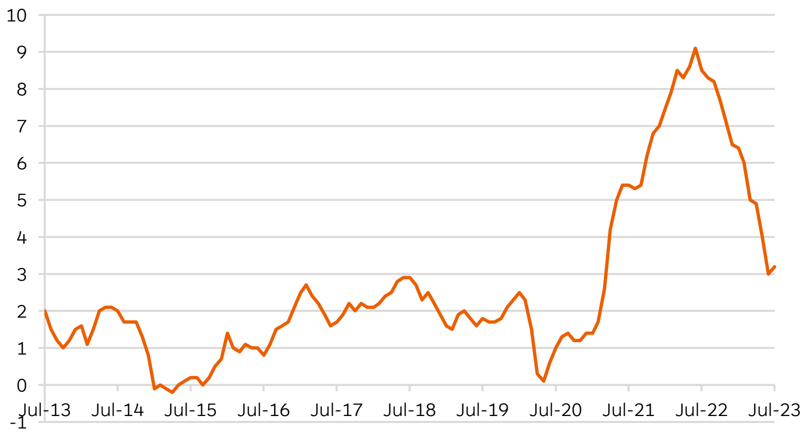
The continued increased uncertainty regarding future economic development, the partly prevailing euphoria of certain investor circles and the often seasonally critical months of August to October continue to leave us somewhat cautious. For this reason, we are keeping the equity quota slightly underweighted in favour of liquidity. Compared to the strategic allocation, the share of bonds in the respective portfolios as well as our quota in gold are neutrally weighted.

"We remain cautious since not all dangers have been averted yet."

US consumer prices - 10 years



Quelle: Bloomberg Finance L.P., Factum AG

Politics

Donald Trump, the former US president and potential Republican candidate for the presidential elections in November 2024, had to face court in Washington for attempted election fraud and for the storming of the Capitol. This is the third criminal indictment and involves by far the most serious charges. Trump has pleaded not guilty. The next hearing is scheduled for 28 August 2023.

"Renewed political wrangling in the US."

Economy

In Europe, the PMI figures remain low at recession levels for the manufacturing sector. Most recently, the figures for the services sector were also slightly down. Due to the predominance of exports in the European economy, business activities will not pick up significantly without stimulus in the target markets. Viewed from this angle, the ECB's interest rate policy is soon likely to have reached its peak level.

"Production in Europe remains weak."

In the USA, the picture of a robust economy has not changed. At +2.4%, the first estimate for the gross domestic product of the 2nd quarter turned out

"Rupping up a score" continues in the US."

higher than was estimated (+1.8%). The labour market also continues to show no major signs of weakness. The effect of the investment programmes that were launched (Inflation Reduction Act, etc.) still seems to be showing. Consumer sentiment has also recently improved. Generally, it can be said that the US economy continues to benefit more than average from the government's high expenditures that are financed by budget deficits. The question here is how long investors will continue to cooperate. The downgrading of the credit rating from AAA to AA+ by the rating agency "Fitch" at the beginning of August can also be seen as a so-called "shot across the bow".

Equity markets

The upward trend on the stock markets remained intact in July, while the previously thin market breadth in the USA (tech stocks) improved. Europe also posted a slight gain of +2%, while the more defensive Swiss market (+0.4%) remained flat. Emerging markets were on the upswing after recent volatility and posted significant gains of +6%.

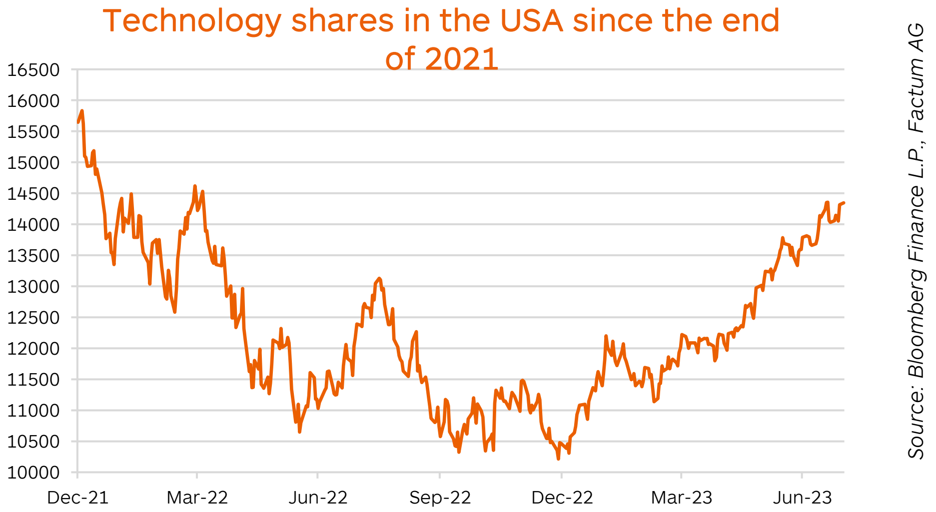
"The upward trend remains intact in July."

Although corporate results for the second quarter were better than expected, they were worse than last year. This is also reflected in the price-earnings ratios (P/E ratios). In all regions, the current P/E ratios are above those of a year ago. In addition, some regions, including the US, are well above their 20-year averages. Should the next company results or the perspectives for the rest of the year turn out to be worse than expected, then price corrections must be expected in view of the currently rather high valuations. This is especially true against the background that fixed-interest investments are again offering reasonable returns and the equity risk premium is becoming smaller and smaller.

"Corporate results are better than anticipated."

Following the upswing, the mood on the market, as measured by various sentiment indicators, is very optimistic, not to say euphoric. This suggests an exaggeration, which calls for caution. Moreover, the US yield curve (10-year versus 2-year) continues to be inverted, which in the past has been a relatively reliable signal of an impending recession. Our current positioning in equities therefore remains cautious.

"Investor sentiment gives cause for caution."



Bond markets

"The central banks remain active."

After the interest rate hike in May, Jerome Powell announced that it is very likely that there will be no more interest rate hikes. The monetary policy instrument "forward guidance" has worked in the past years, but not in today's new investment environment. The economy, driven by positive labour market figures, has repeatedly refuted the view of the economic situation. Opinions regarding the pause in interest rate hikes became more sceptical and further interest rate steps became increasingly likely. As expected, after the pause in June, interest rates were raised by 25 basis points to a level of 5.25% to 5.50% in July. The decline in inflation to 3.0% is a first step towards ending the restrictive monetary policy. While one data point is not enough for a turnaround, inflation data is likely to continue to decline over the next few months. When the next meeting is held in November, the economy could cool down and herald the end of the cycle of interest rate hikes. It is still too early to give the all-clear that there will not be a recession. However, the prospects for a soft landing are getting better with each quarter. The delayed effect of key interest rate hikes on economic growth has not yet become apparent and continues to harbour recession risks.

The ECB also raised interest rates by 25 basis points. This leaves the deposit rate at 3.75% and the refinancing rate at 4.25%. When compared with the US, it is less likely that this was the last interest rate move. Inflation is declining, but not as strongly as in the US. Core inflation in Europe also remains stubborn. Upcoming sets of data will show whether there might be a pause in September.

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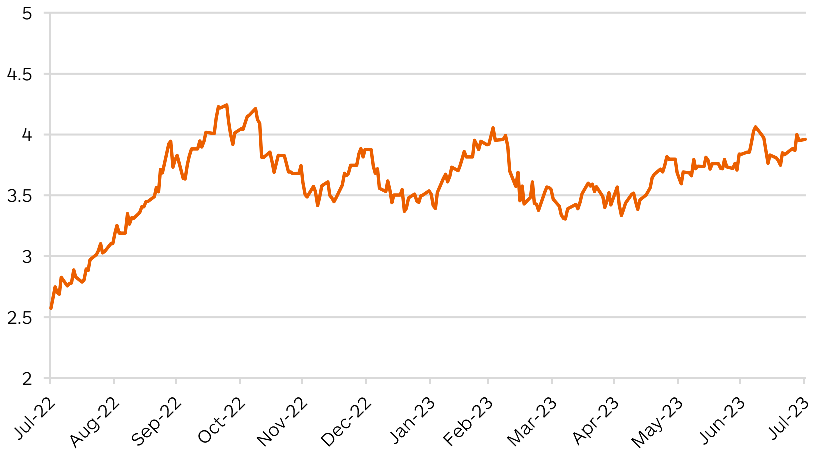
Yield on 10-year US government bonds



Quelle: Bloomberg Finance L.P., Factum A

For bonds, the second quarter was not as positive as the first. After reaching new highs of 2.77% in March, yields on the 10-year Bundesanleihen fell to 2.30% and moved sideways, currently yielding around 2.60%. The 10-year US Treasuries are currently trading at 4.15%, higher than at the beginning of the second quarter, and are a hair's breadth away from the highs of the year. The high yield levels continue to offer attractive entry opportunities. Fears of a recession and the return of the negative correlation between bonds and equities again make the asset class a popular alternative for risk adjustment. We consider at least a neutral positioning to be justified.

"Government bond yields on the defensive."

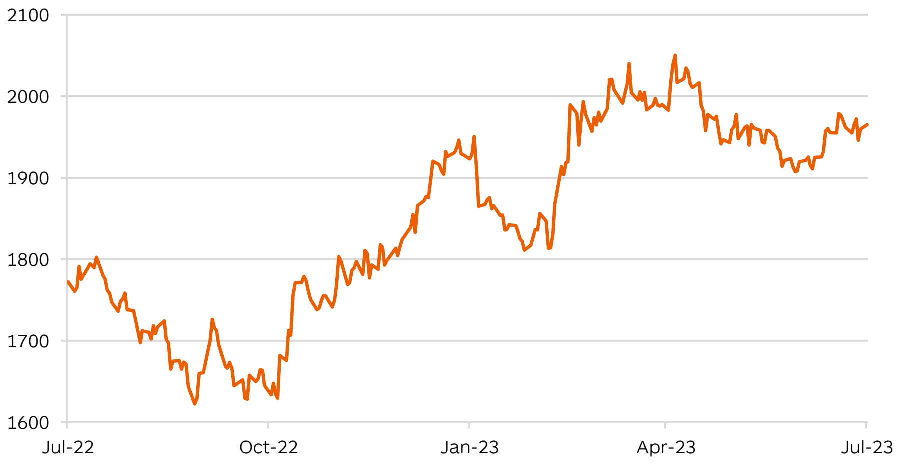
Commodities

After reaching a historic high at the beginning of May, the gold price has continued to fall for two months in a row and even dropped below the USD 1,900 per ounce mark in June. In the course of July, it again reached a new interim high of USD 1,982 per ounce and finally closed July 2% above the previous month. The latest data from the International Monetary Fund show that official central bank gold reserves fell in both April and May by 71 and 27 tonnes respectively. The first net declines since January 2022. Due to robust labour market conditions and stubborn inflation, the US Federal Reserve (Fed) implemented another 25 basis point rate hike at the end of July. The US consumer price index for June has fallen back to 3% now - the smallest annual increase since March 2021. This also raised hopes of an end to the cycle of interest rate hikes in the near future. The fact that the relative perfor-

"The gold price under the influence of contradictory signs."

mance of gold versus equities has improved in the past, especially during recessions, should also support the gold price in the coming months. All in all, we maintain a neutral weighting.

Gold price per ounce in USD - 1 year



Source: Bloomberg Finance L.P., Factum AG

Currencies

The US dollar proved to be resilient in the first half of 2023. Better-than-expected economic data pointed to further rate hikes by the Fed. Nevertheless, the dollar index is still more than 10% below its 20-year high of September 2022. However, as the Fed's rate hike cycle is likely to be nearing its end, we expect the US dollar rate premium to shrink. In Japan, for example, an improving economic environment may lead the central bank to tighten its loose monetary policy and, as a result, put further pressure on the US dollar. This year, the Swiss franc has gained almost 7% against the greenback and around 4% against the euro. The US dollar even fell to a level that we last saw when the minimum exchange rate was lifted. The continued strength of the Swiss franc in the medium term is supported by the SNB's interest rate policy, which is geared towards price stability, lower inflation than abroad and the Swiss franc's status as a safe haven.

"The Swiss franc remains the ultimate benchmark."

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Market overview 31 July 2023

Equity indices (in local currency)	Current	1 Mt (%)	YtD (%)
SMI	11,309.25	0.26	8.56
SPI	14,927.07	0.44	8.68
Euro Stoxx 50	4,471.31	1.77	21.29
Dow Jones	35,559.53	3.44	8.55
S&P 500	4,588.96	3.21	20.64
Nasdaq	14,346.02	4.08	37.72
Nikkei 225	33,172.22	-0.04	28.60
Emerging markets	1,046.91	6.28	11.65
Commodities			
Gold (USD/fine ounce)	1,965.09	2.38	7.73
WTI oil (USD/barrel)	81.80	15.80	1.92
Bond markets (change in basis points)			
US Treasury Bonds 10Y (USD)	3.96	0.12	0.08
Swiss Eidgenossen 10Y (CHF)	1.01	0.12	-0.61
German Bundesanleihen 10Y (EUR)	2.49	0.21	-0.08
Currencies			
EUR/CHF	0.96	-1.86	-3.11
USD/CHF	0.87	-2.65	-5.69
EUR/USD	1.10	0.81	2.73
GBP/CHF	1.12	-1.56	0.04
JPY/CHF	0.61	-1.26	-13.18
JPY/USD	0.01	1.41	-7.85

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Editorial deadline: 11 August 2023