Investment Report

February 2021

Factum AG Current positioning:			
Portfolio balanced	**Neutral**	**Current**	**Change***
Liquidity	3%	8%	→
Bonds	37%	29%	→
Shares	45%	46%	→
Alternative investments	15%	17%	→

**Changes since the last Investment Report (11 January 2021) & current assessment.*

Strategy overview

In our view, the greatest uncertainties at present stem from the various coronavirus mutations, which could prompt governments to extend their lockdowns. In principle, however, the restrictions are less far-reaching than those in the first half of 2020, as is also demonstrated by the greater mobility. The vaccination campaigns are clearly positive developments. The fact that the pharmaceutical companies responsible for manufacturing the vaccines are building up capacity suggests that it should be possible to contain the pandemic during the second half of the year.

"The greatest uncertainties derive from the various coronavirus mutations."

The price of certain stocks fell sharply during the final week of January. The most important stockmarket indices slipped between 2.5% and 4%, while the MSCI World corrected by 3.3%. Due to the weak stockmarket week, the price gains since the beginning of the year were erased in most places, as the Market Overview table shows. The MSCI Emerging Markets index closed the month of January in positive territory with a gain of +3% and the US technology exchange Nasdaq Composite Index with a gain of +1.5%.

"Global equity markets went into reverse at the end of January."

Of late, most emerging market equities outperformed their counterparts from industrialised countries. Since emerging markets are not a homogeneous entity and the Chinese economy has emerged from the crisis the fastest and continues to post robust growth rates, we have decided to concentrate part of our equity ratio on this sub-segment. We are allocating two percent for all risk profiles with an equity component, and for this purpose are using an investment solution that focuses on domestic equities. In overall terms, we remain overweighted in emerging market equities. In conjunction with the reallocation of the emerging market equities ratio, we rebalanced our underlying investment in this segment to the ratio that has now been reduced for this fund. This means the overall ratio for emerging market equities remains unchanged.

"Increase in Chinese equities in our mandates."

MSCI Equities Emerging Countries

Politics

The power exercised by America's big tech corporations was impressively demonstrated following the storming of the Capitol in Washington on 6 January. In quick succession, Facebook, Twitter and YouTube blocked Donald Trump's accounts, effectively unplugging his loudhailer. At Twitter alone the former US President had over 80 million followers. However, it was not only social media that flexed its muscles. The plug was also pulled on the Parler platform, through which Trump supporters had organised in the run-up to 6 January. For example, Apple removed it from its App Store and Amazon's Web Services then took it offline altogether. But these actions have also been something of a wake-up call for lawmakers in Washington. Republicans saw this as brazen vigilante justice exercised by the tech companies of the

"Under the Biden Administration, the operating environment for Silicon Valley is likely to get tougher."

so-called “Left Coast” that had become far too powerful. In the view of Democrats, by contrast, the measures came too late. They argue that misinformation about the election had gained momentum unchecked on the internet for months. President Biden has for years being criticising the power of technology companies. Under his leadership and with Democratic majorities in both chambers of Congress, powerful Silicon Valley companies are likely to find the going tougher over the next four years. Even if their motives are diametrically opposed, the two parties are united in their view that tech companies need to be controlled more closely.

The Department of Justice, the responsible Federal Trade Commission (FTC) and various states have filed lawsuits against Facebook, Alphabet and Apple in recent months for allegedly violating competition law in various ways. Many years are likely to elapse, however, before the lawsuits reach a final judgement. Changes to existing competition law could be implemented more quickly, as the Democrats now have a majority in both chambers of Congress. In addition, President Biden is planning to install known critics of the technology companies in the Department of Justice and at the top of the regulatory bodies FCC (Federal Communications Commission) and FTC.

“Biden is planning to install proven critics of the tech giants in the Department of Justice.”

Economy

In the wake of the unexpectedly strong GDP figures from Spain, Germany and France, it no longer came as a great surprise that the economy of the entire Eurozone likewise came through the final quarter of 2020 better than expected. The various national lockdowns seem to have had less of a negative effect than had been feared. According to Eurostat’s preliminary estimate, the Eurozone economy contracted 0.7% in Q4 2020 relative to the previous quarter. For the year as a whole, however, there was an extremely severe downturn in economic output of 6.8%. This was significantly worse than in the USA, for example (-3.5%).

“Final quarter of 2020 better than forecast in Europe.”

Furthermore, the outlook for the current quarter is also not exactly encouraging. Ongoing lockdowns are likely to keep the economy contracting throughout the first three months of the year, pushing the Eurozone back into recession. This is confirmed by the latest Purchasing Managers’ Survey. The PMI Composite, for example, slid further into the contraction territory in January. The Purchasing Managers’ Index for the overall economy, the PMI Composite, sank from 49.1 to 47.8 points. Responsibility for the decline lies with the service sector, which is continuing to be hit hard by the lockdown measures imposed to reduce the spread of the pandemic. The PMI Services slipped to 45.4 points. The situation in the manufacturing sector, by contrast,

“The situation is likely to get worse before it begins to get better.”

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has remained robust. The PMI Manufacturing weakened only imperceptibly in January and, at 54.8 points, points to solid and sustained growth. This is already the seventh month that the index has been in expansion territory, reaching one of the highest index values recorded over the past two and a half years.

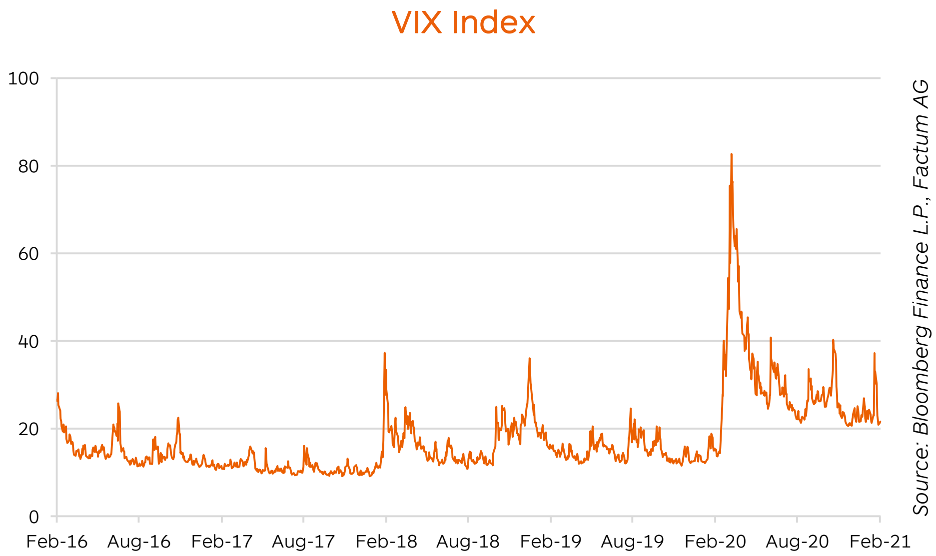
In China, the latest Purchasing Managers' Survey is pointing to a slowdown in growth. Clouds have been gathering in both the industrial and service sectors. Relative to the previous month, the Manufacturing PMI lost 1.5 points, while the Service PMI lost no less than 4.3 points. The additional lockdown measures imposed against the backdrop of the recent outbreak in the north of the country and the upcoming New Year celebrations are likely to have had a negative effect. However, both activity indicators are still above the critical 50 point mark, which is why we are only expecting growth to slow, not to stop altogether.

"Growth slowdown in China."

Equity markets

Corporate earnings are likely to be broadly positive. In the United States, for example, around 60% of the companies listed in the S&P 500 have now reported their quarterly figures, and the picture is upbeat. 80% of these companies exceeded analysts' profit expectations and 75% exceeded sales expectations. These figures lie significantly above the long-term average. In addition, the companies are comfortably exceeding earnings expectations. In absolute terms, corporate earnings are 1.7% higher than they were one year ago. If this remains the case, it would be the first quarter since Q4 2019 in which earnings came in higher in year-on-year terms. The prospects for a strong economic recovery from Q2 onwards have also boosted earnings expectations for the next 12 months. The Covid dip in corporate earnings could therefore be almost completely evened out by the end of this year. At the same time, however, equity indices are now also markedly higher. There is no denying this. As a consequence, the valuations of certain stockmarkets are now decidedly impressive, making them vulnerable to corrections, such as the one seen at the end of January. Stockmarkets are therefore unlikely to find the going easy in the coming weeks. Volatility could jump again and feed doubts about the sustainability of the stockmarket upturn.

"In overall terms, the quarterly figures published by US corporations came in ahead of expectations."



However, as long as the economic recovery is not called into question and monetary and fiscal policy continues its super-expansive course, we believe these are likely to be merely interim corrections and not the end of the bull market. We remain optimistic and believe that equity markets have continued upside potential.

"We remain optimistic and believe that equity markets have continued upside potential."

Bond markets

At its December meeting, the US Federal Reserve maintained its loose monetary policy, keeping its key lending rate in the range of 0 to 0.25% and confirming securities purchases of USD 120 billion. At the time, it was said that purchases would continue until substantial further progress towards full employment and price stability had been achieved. As the minutes published in January now reveal, the monetary watchdogs unanimously support this new formulation (forward guidance). In addition, the monetary authorities pointed out that the assessment of substantial further progress is broad, qualitative and not based on specific numerical criteria or thresholds. Moreover, all Fed members agreed that bond purchases are appropriate when it comes to supporting the economic recovery and should continue at least at the current pace. According to the minutes, however, some members had shown themselves open to extending the terms of the purchases. They also broadly agreed that a high degree of flexibility is still needed and that future changes to the securities purchase programme should be possible at any time. Any reduction in the volume of purchases should also be communicated well in advance. The tapering in the aftermath of the financial market crisis in 2013 and 2014 was mentioned as a model for a possible tapering of bond pur-

"The Fed remains united behind its bond purchase programme."

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chases. In the minutes, the US economy continued to be described as relatively robust and resilient. The monetary watchdogs noted, however, that the recovery is likely to slow due to the substantial infection figures. As a consequence, they are expecting inflation to remain low. In the medium term, however, inflation is expected to rise gradually due to the vaccination programme and the continued monetary stimulus. Based on the new guidance on bond purchases and the Fed's own forecasts, it is quite conceivable that tapering will be initiated sometime between the end of this year and the end of next year.

Commodities

The price of oil continues to face challenges. This remains clearly below pre-coronavirus levels, as new mobility restrictions and the resumption of Libyan oil production weighed down on prices. For this reason, OPEC and Russia can be expected to further curtail their production in order not to worsen the global supply situation even more. The oil price increases recorded in the first few weeks of the current year are linked to the unexpected production cut by Saudi Arabia. In the longer term, global oil demand could benefit from stronger Chinese industrial production and the roll-out of coronavirus vaccines, if they meet the expectations that have been placed in them.

"Oil prices with further upside potential."

The upwards movement of the price of gold has come to a halt. Following a remarkable rally that saw the price of the precious metal soar from USD 1,200 to reach USD 2,000 per troy ounce in around two years, it has been consolidating since August last year. In our view, this was brought about by reduced risk aversion on the part of investors, who are assuming that the economy will pick up during the second half of the year and have shifted their money into equities and, in some cases, into cryptocurrencies. The main reason for this, we believe, is the slight increase in real interest rates in the USA from -1.1% to -0.80%. Nominal yields on ten-year US government bonds have climbed above 1% for the first time in a long period, with inflation expectations not keeping pace. However, gold specifically benefits from negative real interest rates, as it does not yield a return. However, we doubt very much whether the rise in real interest rates will continue, because debt levels around the globe are extraordinarily high and a great many governments as well as private individuals will not be able to afford significantly higher interest rates.

"The price of gold has consolidated since August of last year."

Initial market signals point to a return of inflation. For some time now, commodity prices, from agricultural products to crude oil and industrial metals, have been rising steeply. If the pandemic were to be overcome, there would probably be a catch-up effect on consumption, which would trigger a marked rise in consumer prices. Unlike in previous cycles, the Fed is unlikely to respond with rate hikes in such an event. After all, the overshooting of inflation targets has become one of the central goals of monetary policy. The consensus is not expecting interest rate hikes in the US and Europe before 2024. Another instrument that the US Federal Reserve could use is the so-called yield curve control. For this purpose, the Fed defines interest rates along the yield curve and undertakes to buy bonds in order to defend the targeted interest rate level. It is often the case that merely issuing a statement to this effect is sufficient, because arbitrage soon takes place on the market. This would lead to real interest rates falling again, which has historically fuelled the gold price.

"When will inflation start to rise?"

Another aspect that should not be forgotten is that gold can act as a central portfolio stabiliser. For example, the precious metal has been an outstanding insurance policy in virtually all major S&P 500 bear markets since 1990. While the US stockmarket lost an average of around 25% in the eight most significant setbacks of the last thirty years, the gold price was able to gain over 7%. The situation in Europe has been similar. Our view on gold has not changed and we continue to regard the precious metal as an indispensable portfolio component.

"Gold can act as a central portfolio stabiliser."

Currencies

The US dollar has been exhibiting weakness of late. The main reason for this is the decline in US real interest rates relative to other countries, which has boosted both the price of gold and other tangible assets such as equities. In terms of the fundamentals, the euro will have upside potential if the relative economic strength of the Eurozone increases vis-à-vis the US. Given the low baseline of economic activity in 2020, the Eurozone may surprise more on the upside in terms of growth than the United States.

"The delicate state of the US economy and the resulting loose monetary and fiscal policy are likely to weigh down on the US currency."

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Market overview 29 January 2021

Stock indices (in local currency)	Current	1 Mt (%)	YtD (%)
SMI	10,591.06	-1.05	-1.05
SPI	13,192.93	-1.01	-1.01
Euro Stoxx 50	3,481.44	-1.84	-1.84
Dow Jones	29,982.62	-1.95	-1.95
S&P 500	3,714.24	-1.02	-1.02
Nasdaq	13,070.69	1.44	1.44
Nikkei 225	27,663.39	0.80	0.80
MSCI Emerging Countries	1,329.57	2.99	2.99
Commodities			
Gold (USD/fine ounce)	1,847.65	-2.67	-2.67
WTI oil (USD/barrel)	52.20	7.58	7.58
Bond markets			
US Treasury Bonds 10Y (USD)	1.07	0.15	0.15
Swiss Eidgenossen 10Y (CHF)	-0.42	0.13	0.13
German Bundesanleihen 10Y (EUR)	-0.52	0.05	0.05
Currencies			
EUR/CHF	1.08	-0.02	-0.02
USD/CHF	0.89	0.58	0.58
EUR/USD	1.21	-0.65	-0.65
GBP/CHF	1.22	0.91	0.91
JPY/CHF	0.85	-0.74	-0.74
JPY/USD	0.01	-1.34	-1.34

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