Your wealth is our priority.

FACTUM

Investment Report

February 2023

Factum AG
Current positioning:

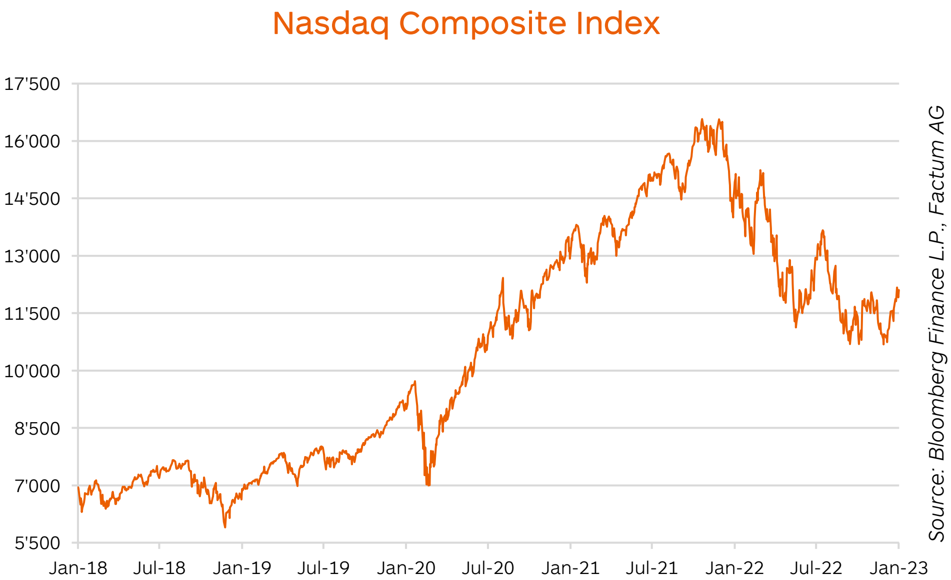
Portfolio balanced	Neutral	Current	Change*
Liquidity	3%	6%	→
Bonds	35%	33%	→
Shares	47%	44%	→
Alternative investments	15%	17%	→

**Changes since the last Investment Report (20 January 2023) & current assessment.*

Strategy overview

"After a euphoric start to the year, we consider a cautious investment policy to be appropriate."

Global stock markets got off to a flying start in the new year. The Nasdaq Composite, for example, gained around 11% in January. China's economic liberalisation, lower energy prices and falling inflation have contributed significantly to this. In addition, US corporate profits have impressed the investment community so far. At the moment, the question is what may happen in the near future to surprise the stock markets, either positively or negatively. The two components, inflation and a possible recession, are of immense importance. Or, to put it simply, will inflation fall quickly enough into the target corridor of the central banks and will the rapid interest rate hikes in America lead to a profit recession for companies? Without a doubt, a so-called profit recession would be the worst case scenario for a stock market and, from a historical perspective, the devaluation potential would be considerable. Among the arguments speaking against a massive slide of the stock market are such points as China turning its back on the zero-tolerance policy on Corona as well as the investments in so-called megatrends such as renewable energies, digitalisation and security (military rearmament). In our view, taking too extreme a position is out of place at the moment. We are taking our time in building up risk, which is why we are keeping equities slightly underweight in our tactical asset allocation.



Politics

In early February, US President Biden tried to woo the working class during his State of the Union address. Nevertheless, the majority of Americans, namely 62%, believe that so far he has not achieved much during his term in office. Unemployment has fallen to a record low of 3.4%, but inflation, which is still stubbornly high, is a problem for the population. In addition, the discovery of classified documents in his home and former office and the Chinese stratospheric balloon that hovered for days over American airspace made him look bad. To make matters worse, Ukraine fatigue is spreading. About a third of the population believes that Kiev is receiving too much support from Washington.

"Biden delivers State of the Union address."

Biden tried to appeal specifically to the working class by highlighting the one trillion dollar infrastructure programme as well as the law to support the domestic semiconductor industry. This would create countless jobs in America in the future, as well as help build roads, bridges, airports and faster internet connections. Biden emphasised that the wealthy upper class and large corporations should increasingly pay for government investments in infrastructure, health care, the energy transition as well as better education. In this way, he justified the minimum tax of 15% for large companies which Congress had passed.

"President Biden is trying to target Trump's voter base."

In his speech, Biden focused mainly on domestic issues, but he also touched on global politics, saying that America was once again leading the world in issues such as climate change, terrorism, food insecurity as well as against aggressive autocracies. All in all, Biden showed himself ready to fight and we will follow the next few weeks with great interest, as he is expected to announce whether he will be running for a second term in office starting in 2024.

"Is Biden going to run for a second term?"

Economy

The economic picture in the Eurozone continues to brighten. The Provisional Purchasing Managers' Indices rose for the third month in a row, with the PMI Composite returning to the growth zone for the first time since June 2022. For the first time since July, business activity in the services sector improved whilst the decline in manufacturing production was less than in the preceding months. At the same time, there has been the strongest increase in the Business Expectations Index for both sectors since June 2020.

"In the Eurozone, the flow of encouraging data continues."

The mood among consumers, on the other hand, is comparatively gloomy. Although consumer confidence in the Eurozone improved slightly in January, it still remains deeply in negative territory at -20.9 points. In contrast, the German Ifo index, which is generally considered the best leading indicator for the German economy, sent out a positive economic signal. In January it improved from 88.6 to 90.3 points and so reached its highest level in seven months. Those companies that were surveyed assessed the business outlook for the next six months as significantly better than in the previous month. The Ifo index suggests that the German economy may be able to avoid a recession completely.

"The German Ifo Index is sending out a positive economic signal."

Equity markets

The majority of US companies provided convincing earnings reports, which led to considerable confidence on the stock markets. Around half of the 500 companies in the S&P 500 have now published their results. 70% of the companies exceeded the earnings expectations of the analysts and 61% the sales expectations. Looked at from a historical perspective, this is below average, but in view of the difficult economic situation, the earnings reports were able to convince the investor community. In addition, earnings expectations for the whole of 2023 are already back in the positive range with a plus of 3%.

"US corporate results inspire confidence."

In the long term, the development of corporate earnings is the most relevant factor for equity performance. The indicators for sales growth are geared towards decline, however, the magnitude will depend on the exact dynamics of the economy. A marginal economic downturn could be more easily absorbed by well-positioned quality companies with pricing power, but a recession would be much more challenging. It will probably be some time before there is more clarity on these issues and extreme positioning should be avoided.

"Most relevant for the direction of share prices in the long run is the development of profits."

Bond markets

At the beginning of February, three of the most important central banks - the Fed, the ECB and the BoE - announced their monetary policy decisions. All three central banks raised their key interest rates in line with expectations. The US Federal Reserve slowed its rate hike to 25 basis points, the ECB and the BoE each raised the key interest rate by 50 basis points.

"The most important central banks announce their monetary policy decisions."

While the Fed's statement was again hawkish - remaining unchanged from December - that it would raise the key interest rate continuously, Fed Chair Powell did send certain dovish signals at the press conference. For example, for the first time he mentioned that the disinflationary process had now begun and he appeared relatively relaxed about the easing of financing conditions in the financial markets. At the same time, though, he did stress that the central bank still expected a weakening of the labour market, but was not assuming that there would be a recession. However, a victory over inflation could not be declared yet.

"The cycle of interest rate hikes in the US is likely to be coming to an end."

Commodities

When measured against the CMCI total commodity index, commodities in US dollars gained about as much last year - on a total return level - as equities or bonds lost. Once again, they demonstrated their strength as a diversifying asset class, similar to earlier times of higher inflation. In recent weeks, commodity markets have been dominated by volatility in both directions. The departure of China from its zero-tolerance policy on Corona is undoubtedly positive. Fluctuating winter temperatures also play a role, especially in the energy sector. Once European stocks of natural gas were well filled, there were corrections in energy commodities, including oil.

"The CMCI Total Commodity Index has gained about as much as equities and bonds have lost over the past year."

Gold, on the other hand, was able to recover significantly from its low of around USD 1,650 per ounce to currently around USD 1,930 per ounce, just as we had forecast in the event of a weakening of the US dollar. All in all, in our view, the positive and negative arguments are more or less balanced, which is why we continue to consider a neutral position to be justified.

"We consider a neutral position in gold to be justified at the moment."

FACTUM

Currencies

Having climbed to its highest level in twenty years last autumn, the US dollar, as measured by the U.S. Dollar Index, has now corrected by around 10% vis-à-vis the currencies of the most important trading partners. At the moment, a sideways movement would hardly come as a surprise, as both the European Central Bank and the US Fed are expected to raise interest rates further. In the event of an escalation of the Ukraine war, the European single currency is once again likely to lose ground against the US dollar. In this kind of environment, the euro is also likely to depreciate against the Swiss franc. Overall, the Swiss franc should remain a solid currency and be less volatile than other currencies.

"Since September 2022, the U.S. Dollar Index has corrected by around 10% vis-à-vis the currencies of major trading partners."

U.S. Dollar Index

FACTUM

Market overview 31 January 2023

Stock indices (in local currency)	Current	1 Mt (%)	YtD (%)
SMI	11,285.78	5.19	5.19
SPI	14,490.30	5.50	5.50
Euro Stoxx 50	4,163.45	9.94	9.94
Dow Jones	34,086.04	2.93	2.93
S&P 500	4,076.60	6.28	6.28
Nasdaq	11,584.55	10.73	10.73
Nikkei 225	27,327.11	4.73	4.73
MSCI Emerging Countries	1,031.50	7.90	7.90
Commodities			
Gold (USD/fine ounce)	1,928.36	5.72	5.72
WTI oil (USD/barrel)	78.87	-1.73	-1.73
Bond markets			
US Treasury Bonds 10Y (USD)	3.51	-0.37	-0.37
Swiss Eidgenossen 10Y (CHF)	1.28	-0.34	-0.34
German Bundesanleihen 10Y (EUR)	2.29	-0.29	-0.29
Currencies			
EUR/CHF	1.00	0.56	0.56
USD/CHF	0.92	-0.90	-0.90
EUR/USD	1.09	1.48	1.48
GBP/CHF	1.13	0.88	0.88
JPY/CHF	0.70	-0.18	-0.18
JPY/USD	0.01	0.79	0.79

Author: Christof Wille, Dipl. Private Banking Expert NDS
Editorial deadline: 10 February 2023