Your wealth is our priority.

FACTUM

Investment Report

May 2022

Factum AG
Current positioning:

Portfolio balanced	Neutral	Current	Change*
Liquidity	3%	7%	↗(+1%)
Bonds	35%	31%	→
Shares	47%	47%	↘ (-1%)
Alternative investments	15%	15%	→

**Changes since the last Investment Report (07 April 2022) & current assessment.*

Strategy overview

Disappointing – is a word that sums up the month of April very well. Global stockmarkets recovered strongly in March. Subsequently, the World Equity Index, for example, slipped back again by 8% in April. The Nasdaq technology exchange actually lost 13%, corresponding to the worst monthly performance since 2008. Negative factors have clearly been around for several weeks. Panic about the prospect of hefty interest rate hikes, the war in Ukraine and the Chinese government's zero-Covid policy, which has seen cities with millions of inhabitants being hermetically sealed.

"The Nasdaq technology exchange lost 13% in April, corresponding to its worst monthly performance since 2008."

There is no doubt that global economic risks are currently elevated. When it comes to asset investments, we are therefore exercising caution. However, it is important to remember that a wide range of negative headlines have already been factored into global equity markets. This means that even a very few news items have the potential to lighten the mood. We have tended to become a little more cautious over the past month and have slightly reduced our equity exposure, which in practice means that we now have a neutral weighting in equities.

"A great many negative headlines are currently priced in."

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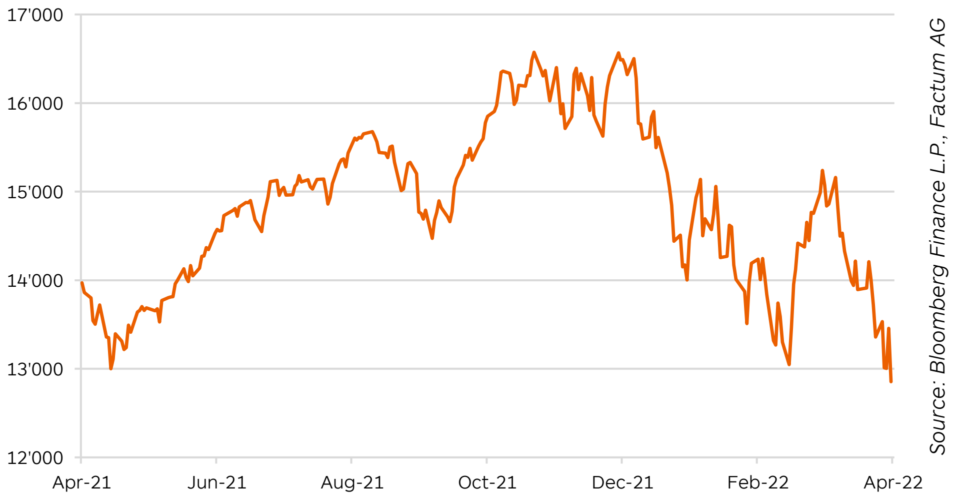
Nasdaq Index



China's harsh clampdown in response to the Omicron wave has thrown the brakes on the world's second-largest economy. Lockdown measures are not only putting a huge strain on global supply chains, but are also worsening the situation in other Asian countries. At an average of 16%, the contribution made by Chinese components to local manufacturing value added is significantly higher than in other regions of the world. The concomitant renminbi weakness and deteriorating financing conditions (inter alia higher credit spreads) are additional factors that are clouding the outlook for emerging market equities. For this reason, we are eliminating our marginal overweight and reducing the equity ratio to "neutral".

"We eliminated our moderate overweight over the past month and reduced the equity ratio to neutral."

The latest Chinese government "zero-Covid" policy measures have rendered the growth target of 5.5% a distant prospect. As a consequence, there has been a significant rise in expectations that the People's Bank of China and the Chinese Politburo will approve further stimulus measures. For example, at the end of April the People's Bank of China surprised observers by approving a significantly lower mean value for the CNY/USD trading range. While in April 2020 Chinese bonds still offered a premium of over 2.5% over US Treasuries, this rate advantage no longer exists. In the interim, demand for Chinese bonds has decreased sharply, while infrastructure projects and other fiscal policy measures will probably need to be financed by issuing new debt. Prospects for the Chinese currency as well as for the bond market are therefore not particularly rosy in the coming months, which is why we divested our entire exposure to Chinese bonds in mid-April. We invested the freed-up liquidity in a passive component in emerging market bonds.

"We divested our entire exposure to Chinese bonds in April and switched to a passive component in emerging market bonds."

Politics

Incumbent Macron remains President of France after winning around 60 percent of the vote, with right-wing populist Le Pen securing 40 percent. The French head of state is elected for five-year periods of office.

"Emanuel Macron remains President of France."

The Chinese government headed by party leader Xi Jinping has manoeuvred itself into a delicate economic situation as a result of its zero-Covid policy. At the same time, large parts of the industrial sector have ground to a standstill and the service sector is in a parlous state. The government is now determined to stimulate the country's economy. However, the zero-Covid policy, the primary cause of the problem, will not be relaxed. It now seems less and less about economic pragmatism, and more a question of politics and ideology.

"Peking fears an economic crash."

Economy

Recently published economic data shows that the risks of recession have increased. At the same time, a slowdown in growth remains by far the most likely scenario. For example, the relevant purchasing managers' indices are still markedly above the critical 50-point threshold. Initial provisional results, which were published at the end of April, also turned out to be broadly better than had been anticipated. Despite the war in Ukraine, the Eurozone actually saw a surprise rise in the PMI Composite, which aggregates results from the industrial and service sectors, from 54.9 to 55.8 points. This is due to improved sentiment within service sectors, which have benefited from the lifting of anti-coronavirus measures. Within the manufacturing sector too, however, company sentiment declined less than had been feared. At 55.3 points, the PMI Manufacturing is still signalling attractive growth. What this comes down to is the fact that the figures point to continued economic expansion and clearly against an imminent recession.

"To date, economic data is painting a robust economic picture."

In the United States, by contrast, the results of the purchasing managers' survey were rather more mixed. While the PMI Manufacturing posted a surprisingly strong rise, the PMI Services dipped equally as sharply. All in all, the PMIs are consequently pointing to an economic slowdown, but the risk of a recession over the next twelve to eighteen months remains low in the US.

"We also consider the risk of recession in the US to be low."

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Equity markets

The environment for equities is likely to remain challenging throughout the next few months. Weaker growth, higher inflation and higher interest rates are not an easy environment for equities. The war in Ukraine added a further layer of negativity in February. This has led to increased volatility, as investors do not quite know how to respond to the uncertainty surrounding corporate earnings and the expected increasingly restrictive policies of central banks. In our view, for this reason, a neutral equity weighting is the best option at present. The current overweighting of liquidity will enable us to seize attractive investment opportunities at short notice, if and when they arise. Equities are generally a good inflation hedge, and we currently consider a balance between growth and value stocks to be a reasonable approach.

"Weaker growth, increased inflation and higher interest rates are not making it easy for equities."

Bond markets

Financial markets have recently been pricing in even higher inflationary risks and a more determined response from central banks. Yields on 10-year government bonds, for example, continued to rise in April. In the USA by around 60 basis points, in Germany by around 40 basis points and in Switzerland by around 30 basis points. There is still no sign of easing on the inflation front any time soon.

"Significant uptick in yields in April."

It is essentially the case that the European Central Bank is keen to start normalising monetary policy. In practice, this would mean ending bond purchases completely in the third quarter at the latest, and then raising key interest rates. The ECB is likely to take a data-dependent approach to this. In our view, bonds should continue to be underweighted within the portfolio context. In the credit field, the war in Ukraine has led to more interesting additional yields on corporate bonds compared to the start of the year.

"When will the ECB start normalising monetary policy?"

Commodities

Historically, fluctuations are higher for commodities than for other asset classes. There is also the aspect that the war in Ukraine is heightening volatility, especially when it comes to energy commodities. In the long term, it is likely to be of utmost relevance whether elevated prices lead to an expansion of oil production in the USA and Arab countries. US oil companies have invested only marginally in new oil production in recent years, but have paid higher dividends out to shareholders. We are expecting volatility, especially in oil prices, to remain high over the next few quarters.

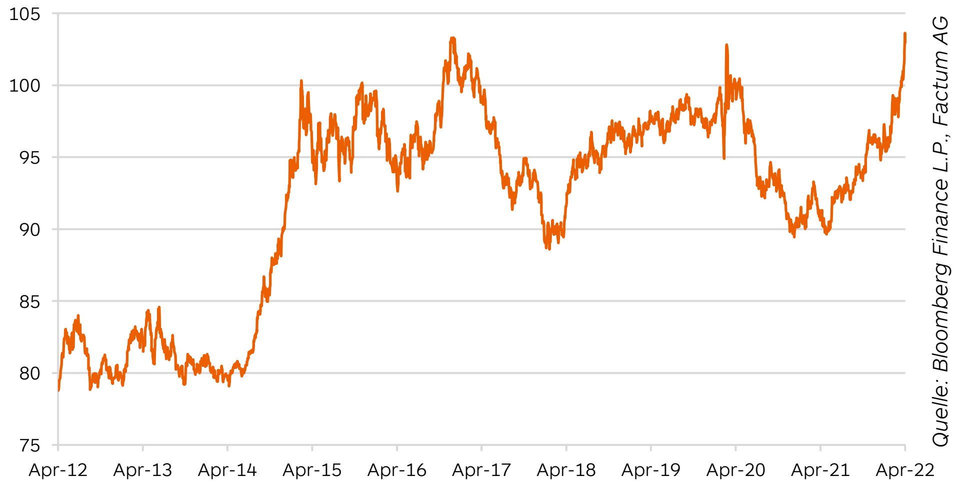
"Volatility is likely to remain high throughout the next few months, especially when it comes to oil prices."

Currencies

Within the past twelve months, the US Dollar Index, which measures the external value of the greenback against six major currencies, has risen by around 15 percent. The DXY traded similarly high at the end of 2016, when Donald Trump was elected president, and at the time of the outbreak of the global pandemic in the spring of 2020. The US currency has gained against the euro and the yen in particular. A key driver for this development is, of course, monetary policy. The US central bank, the Fed, is meeting on 3 and 4 May. Following repeated "hawkish" signals from Fed Chairman Jerome Powell, the market now assumes that the key interest rate will be raised by 50 basis points to a target range of 0.75 to 1 percent. At the last meeting in March, rates were raised by 25 basis points. Since then, however, inflation has climbed to 8.5 per cent, the highest level since 1981.

"The US dollar has recently made strong gains."

U.S. Dollar Index



Market overview 29 April 2022

Stock indices (in local currency)	Current	1 Mt (%)	YtD (%)
SMI	12,128.76	0.85	-3.46
SPI	15,603.08	0.42	-5.12
Euro Stoxx 50	3,802.86	-1.98	-10.67
Dow Jones	32,977.21	-4.82	-8.73
S&P 500	4,131.93	-8.72	-12.92
Nasdaq	12,334.64	-13.24	-21.00
Nikkei 225	26,847.90	-3.50	-5.92
MSCI Emerging Countries	1,076.19	-5.55	-12.13
Commodities			
Gold (USD/fine ounce)	1,896.93	-2.09	3.70
WTI oil (USD/barrel)	104.69	4.40	39.20
Bond markets			
US Treasury Bonds 10Y (USD)	2.93	0.60	1.42
Swiss Eidgenossen 10Y (CHF)	0.87	0.27	1.01
German Bundesanleihen 10Y (EUR)	0.94	0.39	1.12
Currencies			
EUR/CHF	1.03	0.48	-1.10
USD/CHF	0.97	5.34	6.45
EUR/USD	1.05	-4.72	-7.26
GBP/CHF	1.22	0.90	-0.80
JPY/CHF	0.75	-1.17	-5.45
JPY/USD	0.01	-6.22	-11.29

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Editorial deadline: 4 May 2022