Investment Report

May 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 (14 April 2023) & current assessment.*

Strategy overview

Central banks all around the world are certainly not to be envied at the moment. Currently, they have to give top priority to inflation, which is still too high, but the global economy is showing signs that monetary overshooting can also be dangerous. Once again, central banks are increasingly taking this into account by providing banks with additional liquidity. This move, however, is unlikely to lead to a continuation of the so-called quantitative tightening as expected, i.e. the reduction of central bank balance sheets. We still consider it prudent to exercise a certain degree of caution and to focus on stability, despite the positive equity markets and slightly returned bond yields in the current investment year. As a result, we are currently underweight in equities within our managed asset mandates.

"Central banks are not to be envied at the moment."

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Politics

At the end of April, US President Joe Biden announced his candidacy for a second term in a three-minute video in which he declared: "Freedom - personal freedom is fundamental to who we are as Americans." In around one and a half years, we will see the now 80-year old running for president. Four years ago, Biden's advanced age led voters to believe that he would only be an interim president whose single goal was to oust Trump from the White House. However, as Trump is again seeking a candidacy, Biden does not see his mission as accomplished either.

"Joe Biden wants to give it another shot and is seeking a second term."

America was supposed to be debt-free in 2015. That was the plan in 1999 of the then US President Bill Clinton. The economy was flourishing and the state took in far more than it spent. At that time, the debt was USD 13,400 per capita; currently it is USD 100,000 per capita. Now there are heated debates again because the Department of the Treasury will run out of money if the debt ceiling is not raised by the beginning of June. The debt ceiling has been raised 78 times since 1960. The situation is particularly delicate when the president and Congress are divided. The current limit is 31.4 trillion dollars, which corresponds to about 120 percent of the US economic output. Before the 2008 financial crisis, the figure was only half of that. Presidents Obama, Trump, Biden and the respective Congress are responsible for this doubling of the debt.

"And again there is a fight in the US over raising the debt ceiling."

Biden's negotiating skills, which were praised as his great strength before his election, are what is needed now. However, even if Democrats and Republicans agree on where to save and raise the debt ceiling, the main cause remains untouched. It is the social security system that, without reform, is causing the American debt to explode.

"Biden's negotiating skills are what is needed now."

Economy

The risks of recession have increased significantly in recent weeks due to the stress in the banking sector. The main concern lies with small and medium-sized banks, which may be forced to cut back on lending due to the uncertainty and the ongoing deposit outflow. Commercial banks in the USA have lost more than 550 billion dollars in customer deposits since the peak in April 2022. In contrast, money market funds saw record inflows. The ongoing uncertainty is making credits more expensive and more difficult to find. Credit growth has already slowed due to higher interest rates and tighter standards. This trend will be accelerated by the recent turmoil and will lead to companies cutting back on fixed investment in the coming quarters and will also limit their hiring plans. This, in turn, will affect private consumption,

"The risk of recession has increased in the US due to stress in the banking sector."

which has been robust so far, and could lead to a recession in the second half of the year.

US consumer sentiment dimmed in April. Consumer confidence has fallen again as fears of a slowing economy and a possible recession weigh on American households. The Conference Board has reported that the consumer confidence index fell from 104 to 101.3 points in April. It is the third time in four months that there has been an overall decline in US consumer confidence.

"US consumer confidence has fallen for the third time in four months".

Meanwhile, US house prices have been falling for seven months. House prices have recently fallen in 15 of the 20 major metropolitan regions. However, the cumulative price decline since last June is just under 5%, while countries such as Australia, Canada, New Zealand and Sweden have already seen declines of 10% to 18%. The relatively low stock of houses for sale and the rapidly declining building activity should also prevent a price correction like the one after the financial crisis. Then, house prices fell on average by about a third nationwide.

"US house prices have been falling for seven months."

Equity markets

Since the beginning of the year, shares in the technology sector have performed well. For example, the Nasdaq Composite rose by 17% at the end of April, clearly outperforming the more broadly based S&P 500. The performance of mega caps such as Apple, Microsoft, Alphabet, Amazon and Nvidia is responsible for this. The share price of Meta, formerly Facebook, has almost doubled since the beginning of the year. The quarterly figures recently provided new impetus, with Microsoft and Meta being the primary winners. The primary focus of investments in tech stocks is on growth, which was particularly evident in the second half of 2022. The US technology stock market lost around 33% of its value last year. With the latest quarterly results, there is hope that the weakness in growth has been overcome and that momentum has returned. Profitability is equally relevant. Since autumn of last year, the sector has been hit by a wave of redundancies. Amazon, for example, has cut 27,000 jobs, the largest reduction in the company's almost thirty-year history.

"The US tech stock market is picking up steam."

Undoubtedly, the economic situation poses the biggest challenge. An economic slowdown is going to make it difficult for the sector to recover quickly. However, heavyweights such as Apple, Microsoft, Alphabet, Amazon and Meta are likely to demonstrate their defensive qualities in the face of increased volatility, as was recently seen in the banking crisis in March.

"US tech heavyweights also have defensive qualities."

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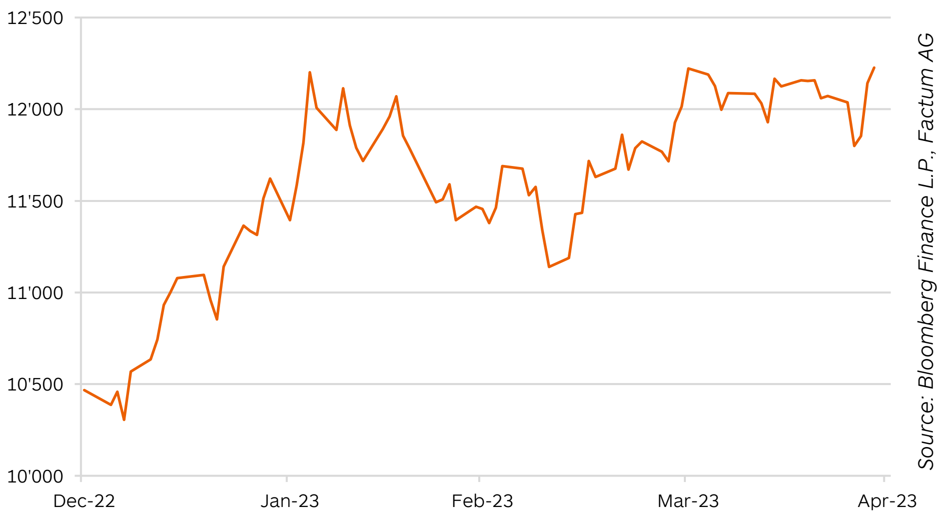
Nasdaq Composite Index



Bond markets

The bond markets are dominated by two opposing factors that will probably continue for some time. On the one hand, the tensions in the banking system give hope for a pause or even a reversal in the Fed's interest rate hike policy. However, some interest rate cuts have already been priced into the bond markets. On the other hand, the inflation figures, both in the United States and Europe, do not yet give the all-clear.

"Two factors are determining the bond markets".

The Fed did not allow itself to be distracted at the beginning of May, be it by the three bank crashes of the past weeks, by the price fluctuations of the securities of other financial institutions, by the party-political dispute over the debt ceiling or by attempts to exert political influence. Interest rates were raised by another 0.25 basis points to 5.25%. This was the tenth rate hike in the last 14 months. The US central bank has thus remained true to its credo of lowering the inflation rate to the targeted level of two percent.

"The Fed is not budging and is sticking to its course."

The next FOMC meeting will take place in mid-June. We believe that another interest rate hike is only realistic if economic data surprise everyone by being on the upside and inflation figures pick up significantly. If this does not happen, the Fed will most likely lay low and keep a close eye on further developments. There are indications that the rate hike at the beginning of May marked the peak of the current tightening cycle.

"There is a high probability that the current tightening cycle has peaked."

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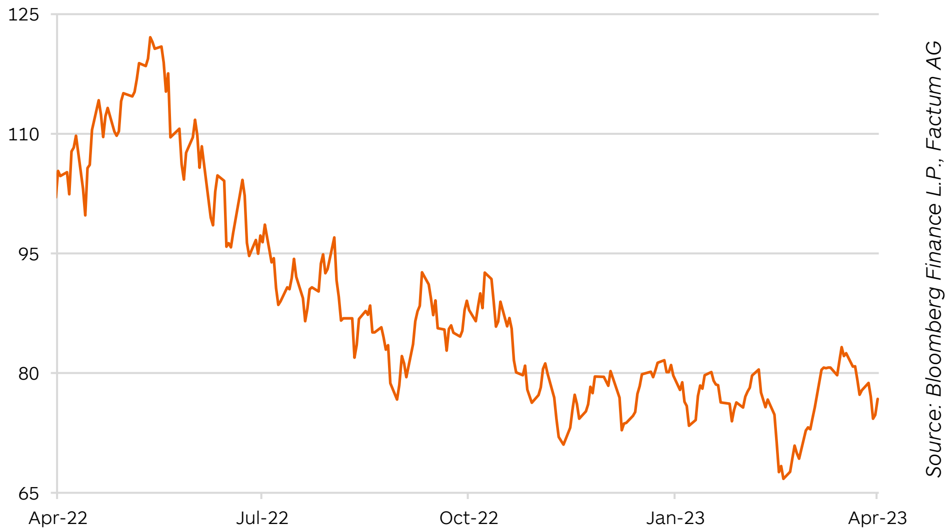
Commodities

The price of crude oil has been particularly volatile in recent months. This must be seen in connection with economic fears arising from the banking turmoil. After a significant drop of 20%, which was also caused by the increase in US oil inventories, the oil price recovered again when the OPEC+ countries decided to cut production. In the event of a resurgence of the banking turmoil, however, high volatility can be expected once again in those commodities dependent on the economy. This is because banks are expected to tend to be more cautious in granting loans, which is more likely to weaken the economy.

"The price of crude oil has taken a beating in recent months."

Crude oil price (WTI)



In this context, however, the positive development of gold is not surprising. After reaching the USD 2,000 per ounce mark, gold appears in the short term to be somewhat technically "overbought". It would not be surprising to see some short-term profit taking. However, especially in recent years, gold has shown that in politically challenging and economically complex times it represents a substantial portfolio component for a diversified portfolio and acts as a core investment for us.

"Gold is a substantial portfolio component and acts as a core investment."

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Currencies

From a historical perspective, the range of fluctuation in the world's most important currencies has been quite high in recent months. Expectations of interest rate changes by the European Central Bank (ECB) and the Fed played a particularly important role. At first, the euro lost ground against the US dollar and also against the Swiss franc, but when the ECB raised the key interest rate more than the US central bank did, the euro recovered vis-à-vis the US dollar. As the Swiss National Bank raised key interest rates by the same amount as the ECB, the euro remained more or less stable against the Swiss franc. However, the Swiss franc is likely to remain stable and attractive compared to other countries. This is due to lower inflation than in the eurozone and higher inflation-adjusted interest rates (higher real interest rates).

"High volatility among major global currencies in recent weeks."

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Market overview 30 April 2023

Equity indices (in local currency)	Curent	1 Mt (%)	YtD (%)
SMI	11,437.14	4.14	9.44
SPI	15,072.98	3.62	9.74
Euro Stoxx 50	4,359.31	1.79	16.36
Dow Jones	34,098.16	2.57	3.53
S&P 500	4,169.48	1.56	9.16
Nasdaq	12,226.58	0.07	17.13
Nikkei 225	28,856.44	2.91	11.67
Emerging markets	977.05	-1.12	2.85
Commodities			
Gold (USD/fine ounce)	1,990.00	1.05	9.10
WTI oil (USD/barrel)	76.78	1.47	-4.34
Bond markets (change in basis points)			
US Treasury Bonds 10Y (USD)	3.42	-0.05	-0.45
Swiss Eidgenossen 10Y (CHF)	1.05	-0.20	-0.57
German Bundesanleihen 10Y (EUR)	2.31	0.02	-0.26
Currencies			
EUR/CHF	0.99	-0.68	-0.42
USD/CHF	0.89	-2.26	-3.23
EUR/USD	1.10	1.66	2.93
GBP/CHF	1.12	-0.38	0.48
JPY/CHF	0.66	-4.75	-6.99
JPY/USD	0.01	-2.52	-3.80

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