Für Ihr Vermögen.

FACTUM

Investment Report

May 2019

Strategy overview

International financial market prices are being determined by sentiment. If you want to know exactly how, all you need to do is take a closer look at the performance of share prices over recent months. At the end of 2018, the negative repercussions of various geopolitical and trade policy stand-offs, lower growth forecasts and a less expansive monetary policy environment led to turbulence. In the interim, however, these question marks seem to have dissipated. In fact, prices have recovered significantly in recent months and many are now at record levels. Over the past eight weeks, the Swiss Performance Index, for example, has been posting a steady series of all-time records. It has gained some 20% since Christmas, and latterly reached 11,735 points. If the US does not slide into recession by July of this year, which is certainly the way things are looking, we will find ourselves in the longest period of economic expansion since 1854.

"Equity prices on Wall Street as well as in Switzerland have gone from one record to the next."

Following a disappointing start to the year, economic data has recently been improving. We are encouraged by the fact that measures taken by the Chinese government are having the desired impact, boosting hopes that economic weakness in the open economies of Europe can be overcome. However, confirmation of this in the form of hard facts has yet to be supplied. While the current situation provides grounds for assurance, global stockmarkets are already expressing a good deal of confidence with their unexpectedly pronounced gains since the beginning of the year.

"The big picture is getting more positive."

Economic data coming out of China and published at the end of April signalled a broad-based recovery, which is likely to continue in the coming months due to the pending reduction in income tax and value-added tax. Due to this, we have ended our underweighting of emerging economy equities and have raised the ratio to neutral. At the same time, we have reduced our overweighting of equities in Japan to neutral. This was triggered, in part, by the value added tax hike that is planned for the second half of the year 2019.

"We raised emerging economy equities to neutral last month."

In view of the fact that, in historic terms, we are now facing relatively "volatile equity months" following strong performance posted by equity markets, we have now positioned ourselves more defensively in the US equities field. We have done this by selling an actively managed investment and implementing a new investment with partial capital protection We are sticking to the partial hedging of the equity ratio.

"Due to the positive price gains in 2019, we have now positioned our portfolios more defensively in the US equity field."

Politics

On 10th April, European heads of state and government agreed on new, flexible extension of the deadline until 31st October of this year. Great Britain can, however, leave the European Union before this date if the controversial departure agreement is actually approved by the British parliament. This means Great Britain has been given sufficient time to find a compromise. The risk of a disorderly Brexit remains low for the foreseeable future. Cross-party talks have not led to a solution to date, although they are being continued. If the talks fail, Prime Minister May has signalled that she would be willing to support the solution that is favoured by parliament. In our view, the likelihood of the various Brexit scenarios consequently remains unchanged. In our view, a softer Brexit scenario remains the most realistic scenario. A compromise solution could therefore be for the UK to remain in the European customs union. While this would make an independent trade policy impossible for Great Britain, it would at the same time meet other key concerns of Brexit supporters, such as the control of immigration or regulatory autonomy.

"UK – Brexit shelved until Halloween."

"Third time's a charm" they say in America, if something is tackled for a third time following two unsuccessful attempts. Third time lucky, in other words. This might well be what Joe Biden is hoping. Following two decidedly unsuccessful attempts in 1988 and 2008 and a withdrawal in 2016, which he later regretted, he has now decided to campaign for the office of President once again. After 36 years in the Senate and 8 years as Vice President under Barrack Obama, he has extensive political experience. As in the case of Bernie Sanders, his relatively advanced age – Joe Biden is 76 years old – suggest that electoral success will be difficult. The bigger handicap, however, is that Democrats actually stand for renewal and the promotion of women and minorities. He first needs to get through the Democratic primaries, though. In our view, however, his moderate nature and political experience mean he has a good chance of becoming the Democratic presidential candidate.

"After 36 years in the Senate and 8 years as Vice President under Barrack Obama, Joe Biden has unrivalled political experience."

It became known at the end of April that US President Donald Trump and the opposition Democrats – the head of the Democrats in the Senate Chuck Schumer as well as the head of the opposition in the House of Representatives Nancy Pelosi – had reached a basic agreement on a gigantic investment programme to modernise US infrastructure. A sum of two trillion US dollars has been agreed, which will be used, inter alia, to repair roads, bridges, tunnels and railway tracks as well as to upgrade the electricity grid. It is not yet known, however, how the infrastructure programme is going to be financed. This is likely to become apparent over the next few months. We can doubtless expect long and tough negotiations.

"Will the USA realise a gigantic infrastructure programme amounting to USD 2 trillion?"

Economy

The extensive economic data from the Middle Kingdom has turned out much better than expected. This raises the question of whether the economic recovery that had been hoped for at a later date has already materialised. Above all, figures for the industrial sector have come in significantly ahead of expectations. Growth in industrial production accelerated markedly from 5.3% to reach 8.5%. Industrial output therefore expanded as strongly as had been the case four and a half years ago. Even the automotive industry, which had suffered a significant downturn in production in recent months, achieved positive growth amounting to 2.6%. The retail sector also beat expectations. Retail sales increased 8.7%, which was the strongest figure since September 2018.

"Upbeat economic data coming out of the Middle Kingdom."

Growth in foreign investment increased from 3.4% to reach 8.7%. GDP growth in the first quarter of 2019 also turned out to be slightly higher than expected. In year-on-year terms, China's economy expanded by 6.4%, while the

"China's GDP expanded 6.4% in Q1 2019."

consensus expectation had been 6.3%. In the final quarter of 2018 the rate of expansion had likewise been 6.4%. This means fears that China's economy could cool as a consequence of the trade dispute with the United States have not been substantiated. Within the context of the government's numerous economic stimulus measures, we are expecting a moderate recovery in growth during the second half of the year. In view of the surprisingly good figures for the first quarter of 2019, the recovery might, however, be weaker than originally assumed. In addition, there is also uncertainty about just how reliable the data is. Chinese figures are notoriously unreliable during the first few months of the year, due to the changing date of the Chinese New Year, which makes effective seasonal adjustment more difficult.

"Strong US economy in the first quarter of 2019."

According to initial official estimates, the US economy grew strongly in the first quarter of 2019. This had not been widely expected. In annualised terms, real gross domestic product (GDP) expanded by 3.2% at the start of the year, following annual growth of 2.9% in 2018 and 2.2% in 2017. A figure of this magnitude had not really been anticipated, on account of the 35-day government shutdown and the ongoing trade policy tensions, the slowdown in growth in the rest of the world and financial market volatility during the fourth quarter of 2018. Since the outlook has continued to improve in the interim – the International Monetary Fund is expecting a moderate pick-up in global growth from the middle of the year – the economic worries that were emerging in the USA will ease, at least in the short term.

"The US is set to manage a so-called soft landing."

It currently appears that the US economy and the Federal Reserve will manage a so-called soft landing, following respectable growth in recent years, interest rate hikes and a slowdown in growth. In June, the current bull market in the USA, which began in June 2009, will have lasted for 120 months. This matches the longest expansion of the post-war period to date, which extended from March 1991 to February 2001. However, this is no time to be getting euphoric about growth. The strong expansion in the first quarter was driven predominantly by volatile items such as corporate inventory build-ups, higher exports and substantial government spending at local and state levels. Consumer expenditure and investment in plants and machinery were relatively modest. This suggests that while the US economy will continue to expand, the high rate of growth is likely to ease over the course of the year as a whole.

Equity markets

Supported by the moderate monetary policies pursued by the most important central banks and the hope of a recovery in the global economy at large, stockmarkets have been able to make exceptionally strong gains in recent months. When dividend payments are taken in to account, all major stockmarkets are 15% - 20% above their year-end levels recorded at the end of 2018. The question now is whether markets have not once again been overly optimistic. Now, there is probably no easy answer to that. Economic hopes are largely justified, especially with regard to China. This also prompted us to lift the emerging market equity ratio to neutral last month. Above all, government measures to curb the activities of shadow banks and the introduction or threat of protective tariffs caused the investment climate in the Middle Kingdom to deteriorate in 2018. However, the government recently implemented significant changes. Monetary policy has been loosened, for example, and numerous tax reductions were agreed for private households and companies at the end of 2018. According to forecasts, the fiscal impulse is set to amount to around 2% of GDP. Brightening sentiment is also reflected by rising retail sales and higher investment. This positive aspect will be felt by the countries closely associated with China, and not least Europe too.

"The justified economic hopes in China also prompted us to lift the emerging market equity ratio to neutral last month."

To date, these hopes have hardly been reflected in the earnings estimates that are crucial for equity markets. It is safe to say, however, that the speed of downwards adjustments has declined markedly in recent weeks. This phenomenon is also apparent in the United States, although there it is more attributable to the surprisingly upbeat quarterly results. In the USA, attention is focusing on rising cost pressures, and in particular wage growth. The continued rise in productivity, which enables wage pressure to be cushioned at least in part, could ease the situation. The clearest argument in favour of equities remains low interest rates. This is manifested by the attractive risk premiums for equities, which remain high in historical terms. Following the positive price gains and lower earnings expectations, however, price/earnings ratios have again risen significantly, above all in the USA and in Switzerland. In our view, the lower valuations in Europe and in emerging economies are attributable above all to the higher weighting of cyclical sectors.

"Earnings expectations are stabilising."

Bond markets

The Fed shows how quickly monetary policy can shift. Interest rate hikes are no longer being planned in the USA in 2019, and the reduction in the volume of bonds held by the Fed is set to be discontinued in September. That is to say, the US Federal Reserve will again be a net buyer of US government bonds from autumn onwards. The bond market promptly responded to this, as well as to the announcement by the European Central Bank that there will be no interest rate hikes in 2019 in the Eurozone either. As a result, government bond yields in the Eurozone and Switzerland are once again clearly negative, while government bonds in the USA are now trading lower again. This is why higher-yield corporate bonds have seen gains, because the question is where yields are available at all. Falling inflation is compounding this search, further boosting so-called high-interest bonds.

"The search for yield is once again getting more challenging."

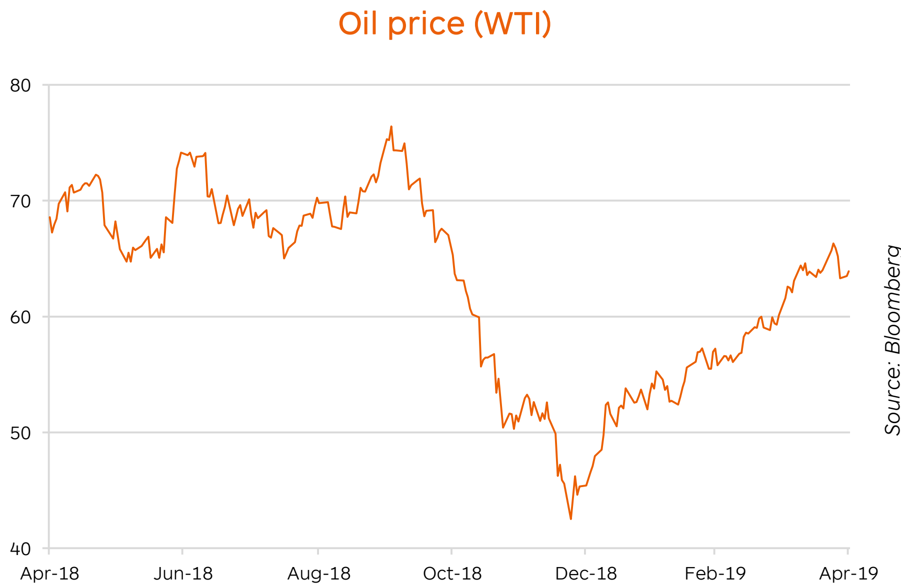
As expected, the Bank of Canada (BoC) left its base rate unchanged at 1.75% in April. Following a total of five interest rate moves since the summer of 2017, the process now seems to have been brought to a close. The BoC cut its growth forecast for 2019 from 1.7% to 1.2%. This is explained by a slowdown in the energy sector, the negative impact of uncertainties about global trade policy and a weaker real estate sector and private consumption. The BoC is slightly more upbeat about the second half of the year.

The BoC is likely to leave base rates unchanged for the foreseeable future."

Commodities

Commodity markets are once again being strongly influenced by the performance of oil prices. The increasing supply shortfall in Venezuela, which had already driven oil prices north, is now being supplemented by the risk of reduced supplies coming out of Libya. As is well known, US sanctions have been in place against Venezuela since the start of the year. Compounded by power cuts, these have cut oil exports by about half. Political instability in Libya has risen following the rebel attack on the capital Tripoli, increasing the risk of production shortfalls. In addition, the bottleneck in pipeline and transport capacity in the United States has not yet been resolved, further limiting exports and consequently the global supply of oil. As the following chart shows, the aforementioned factors have provided oil with support and have pushed the price up by 40% since the start of the year.

"A variety of factors suggest that oil prices are set to rise."



Currencies

The interest rate gap between the United States on the one hand and the Eurozone and Japan on the other hand continues to speak for the US dollar. Ongoing growth differentials between the US economy and the Eurozone or Japan are also keeping the value of the greenback high. The economic changes expected by the market consensus also remain positive for the US dollar, which could weigh down on emerging markets. A credible recovery of the euro would require a raft of European economic data that was better than market forecasts. Moreover, it is important to remember that political stability in the USA improved again following the conclusion of the “Mueller Inquiry” conducted against the US President, which has not uncovered anything substantial against Trump so far. Political stability in Europe, on the other hand, remains fragile, both because of the decidedly chaotic state of British domestic politics and because of the lack of leadership in important states of the European Union.

“For the euro to post a credible recovery, a raft of economic data is needed above the market consensus.”

Market overview 30 April 2019

Equity indices (in local currency)		1 Mt (%)	YtD (%)
SMI	9,769.74	4.38	18.75
SPI	11,735.16	4.39	19.38
Euro Stoxx 50	3,514.62	5.47	18.43
Dow Jones	26,592.91	2.66	14.79
S&P 500	2,945.83	4.05	18.25
NASDAQ	8,095.39	4.78	22.39
Nikkei 225	22,258.73	4.97	12.28
MSCI Emerging Countries	1,079.24	2.12	12.27
Commodities			
Gold (USD/fine ounce)	1,283.53	-0.38	0.77
WTI oil (USD/barrel)	63.91	6.27	40.74
Bond markets			
US Treasury Bonds 10Y (USD)	2.50	0.10	-0.18
Swiss Eidgenossen 10Y (CHF)	-0.30	0.09	-0.05
German Bundesanleihen 10Y (EUR)	0.01	0.08	-0.23
Currencies			
EUR/CHF	1.14	2.41	1.57
USD/CHF	1.02	2.42	3.79
EUR/USD	1.12	-0.03	-2.20
GBP/CHF	1.33	2.44	6.09
JPY/CHF	0.91	1.85	2.06
JPY/USD	0.01	-0.52	-1.63

Author: Christof Wille, Dipl. Private Banking Expert NDS
Editorial deadline: 30 April 2019

If you have any questions, please do not hesitate to contact us at any time. Die Factum AG is a licensed, independent asset management company that is subject to the Liechtenstein Financial Market Authority. It is the exclusive purpose of this publication to inform; it is neither a request nor an offer nor a recommendation to purchase or sell financial instruments or to take any other decisions on investments. It is therefore not a financial analysis in terms of the Marktmissbrauchsgesetz (Act on Market Misuse). The information and opinions contained in this publication originate from reliable sources and have been prepared with the utmost diligence. Nevertheless, we exclude any liability for accuracy, completeness and topicality. All information contained and all prices stated in this publication may change at any time without notice. The value of financial instruments may rise or fall. Future performance cannot be deduced from the past development of prices. Under particular market-related or security-specific circumstances, financial instruments may be sold only with delay and at a reduced price. For this reason it is essentially difficult to quantify the value of an asset and the risks to which this is exposed. We would like to point out that Factum AG Vermögensverwaltung and its employees are allowed in principle to hold, purchase or sell the financial instruments mentioned in this document, without however putting clients at any disadvantage. This publication as well as the information it contains are subject to Liechtenstein law. In the event of any disputes, jurisdiction rests exclusively with the Liechtenstein courts at the legal venue of Vaduz.