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# Investment Report

May 2020

Factum AG
Current positioning:

| Portfolio balanced | Neutral | News | Change* |
|---|---|---|---|
| Liquidity | 4% | 11% | → |
| Bonds | 37% | 29% | → |
| Convertible bonds | 4% | 0% | → |
| Equities | 41% | 43% | → |
| Alternative investments | 14% | 17% | → |

**Changes since the last Investment Report (09 April 2020) & current assessment.*

## Strategy overview

"Deceptive price rallies – at least in the past."

The S&P 500 in the USA rose by around 13% in April, the best month since January 1987. The big question now facing investors and asset managers is, of course, how things will develop going forward and whether the crisis is over. This is a good time to take a look at the history books. In 11 out of 13 bear markets since 1885 – that is to say when the Dow Jones has fallen by at least 25% – there has been at least one recovery of around 10% on the way down. But these often proved to be deceptive. On average, in strong bear markets there have actually been around three such recoveries. During the global economic crisis from 1929 to 1932, there were eight such rallies of 10% and more. There is therefore a high probability that the value of stock-markets could drop significantly once again. Investors should disregard short-term profit maximisation and instead focus on long-term investment goals.

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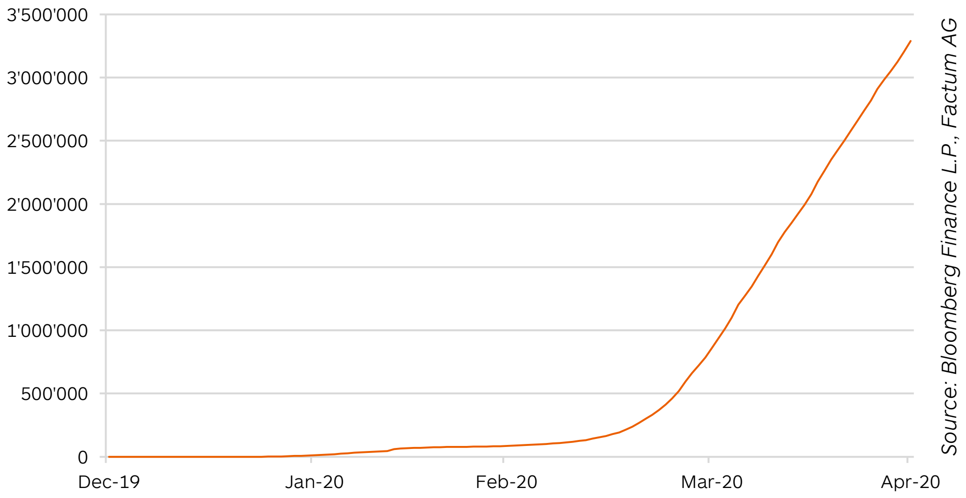
## Coronavirus - cases confirmed around the world




Central banks as well as governments contributed significantly to the strong investment month of April with unprecedented rescue programmes. The global interventions are intended not merely to cushion the consequences of the state-imposed lockdowns on the real economy, but also to protect capital markets from collapse. The amount of money that has been made available is many times greater than what was deployed during the 2008 financial crisis. The majority of investors have been encouraged to believe that the worst is behind us. Some stockmarkets have already recovered half of their price losses. It remains to be seen over the coming weeks and months, however, whether this confidence is justified.

"Central banks and governments made a significant contribution to the strong investment month of April with their rescue programmes."

We believe that the looming weak economic data could have a further adverse impact on markets and are therefore refraining – at least for the time being – from increasing risk in the portfolios. In addition, the USA-China conflict is escalating once again. The issue at present is the question of fault when it comes to coronavirus. According to US Secretary of State Mike Pompeo, there is a substantial volume of evidence that the virus escaped from a laboratory in Wuhan. In overall terms, we are neutrally weighted when it comes to risky assets. We are maintaining our overweighting in gold in the current environment. Our current positioning is shown on page 1.

"We remain neutrally weighted in risky assets - our current positioning is shown on page 1."

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## Politics

The Covid 19 pandemic is also having a negative impact on the US presidential election. Of course, the Democratic primaries have been most seriously affected by this. In 14 states these primaries have either been postponed or switched to a postal vote in the interests of public health.

"The Covid 19 pandemic does not stop at the US elections."

There have even been discussions about postponing the election. However, this would be difficult to achieve because in the United States the president is not directly elected by the people, but instead by the Electoral College, whose members are determined in each individual state. This means there is no election for the highest office in the country at the federal level that the president could postpone by decree. Instead there are 51 elections at state level and – since the 23rd Amendment to the Constitution came into force in 1961 – in Washington DC as well.

"It would be very difficult to postpone the election."

Not even Congress has the power to propose a new date in the near future. 1845 electoral legislation states that delegates to the electoral college must be elected on the Tuesday following the first Monday in November. Theoretically it would be conceivable that all 50 states could decide to change the methods of determining the electoral college, for example replacing it with a direct popular election. This scenario is rather unlikely, as it would require the approval of the legislative assemblies and governors of all states.

"Determining a new election date would require the approval of the legislative assemblies and governors of all states."

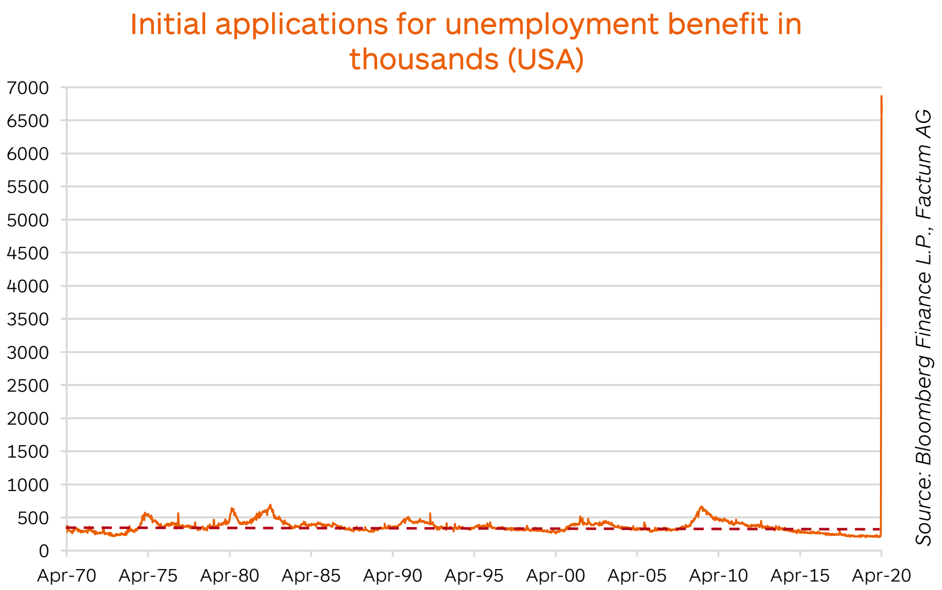
There is one piece of positive news, however, as an obstacle on the hypothetical path to a postal vote has been removed. The United States Postal Service for years has been combating the steady decline in volume of letters sent. The pandemic has dramatically accelerated this development, as advertising from small and medium-sized businesses accounts for a large proportion of postal items. The United States Postal Service has now received a USD 11 billion lifeline in the major emergency aid package set up by Congress.

"United States Postal Service received a lifeline worth USD 11 billion."

## Economy

The corona crisis has had a dramatic impact on unemployment in the USA. The number of people claiming unemployment benefits for the first time increased by a further 3.9 million in the week ending 25th April. This means over 30 million people in the USA have applied for unemployment benefits over the past six weeks, corresponding to around 20% of employment before the crisis.

"Dramatic US unemployment figures."




It may be assumed that further initial applications will be added in the coming weeks, bringing the total number to 35 to 40 million. An increase in the unemployment rate to 15% is a realistic scenario. However, this may not accurately reflect the true extent of unemployment. After all, not every employee will lose his or her job as a result of the crisis and will therefore not be looking for a job at the moment, although this is relevant when it comes to collating the unemployment rate. The lockdown means that others might simply not be able to look for a job at the moment and may also not be included in the unemployment statistics. Broader unemployment rates, which also inevitably include part-time workers or those who have given up looking for a job are therefore likely to be significantly above 15%.

"The total number of initial applications for US unemployment benefit is expected to rise to 35 to 40 million."

The full impact of the corona crisis will not, however, hit the global economy until the second quarter. Compared with the already weak first quarter, the global economy is likely to record an unprecedented decline in GDP of around 20% (annualised). The fact that the decline is not even more substantial is primarily due to the circumstance that the Chinese economy, which accounts for around one-sixth of global GDP, is already back on the path of recovery. The rigorous official measures imposed in many countries make a better performance appear impossible. Recent economic data also clearly shows the extent of the economic slowdown. Many indicators are plummeting and hitting historical lows. For example, economic confidence in the Eurozone, which fell dramatically in April. The European Commission's monthly sentiment indicator fell from 94.2 to 67.0 points, by far the biggest monthly decline since the survey started in 1985.

"Catastrophic economic indicators, catastrophic second quarter."

**Equity markets**

Stockmarkets have recovered strongly after their lows at the end of March. The MSCI World, for example, is still almost 12% below its level at the beginning of the year - and the SPI has lost only 7% compared to the beginning of the year, thanks to its defensive heavyweights. Latin American markets, medium-sized companies in the USA (Russell 2000) and European markets, which have a greater cyclical weight than the US market dominated by technology companies (S&P 500), were hit harder.

"Equity markets post impressive performance in April."

The fact that Austria, which is now entering its fourth week of eased lockdown rules, has so far not seen any significant increase in new infections is encouraging. On the other hand, countries where the growth in daily new infections is still relatively high, such as the USA, are also planning to relax the restrictions. This risk a further exponential increase in new infections and the reversal of relaxation measures that have already been granted. That would definitely be fatal for global stockmarkets. In addition, the strong rise in stock prices has led to the dip in the price-earnings ratio (P/E ratio) in February and March being almost completely eradicated on the basis of future 12-month earnings. Against this backdrop and the tremendous forecast uncertainty about the course of the economy, there is likely to be limited scope for further rapid price gains. Instead, it is safe to assume that stockmarket volatility will remain high and that an extraordinarily bumpy road lies ahead. We therefore continue to regard a defensive equity strategy in terms of both regional and sector allocation as appropriate.

"We regard a defensive equity strategy in terms of both regional and sector allocation as appropriate."

**Bond markets**

The world's three most important central banks, the American, European and Japanese, held an ordinary meeting at the end of April. The central common denominator is that they are in absolute crisis mode and leave no doubt that they will do everything, for as long and as extensively as necessary to cushion the economic crisis. At its meeting the European Central Bank (ECB) left all monetary-policy interest rates unchanged, as expected. The programme of securities purchases, which increased in March, will be continued as planned. Under the so-called Pandemic Emergency Purchase Programme (PEPP) alone, EUR 750 billion in securities will be purchased by the end of the year, whereby the currency watchdogs have a free hand when it comes to the timing of the allocation, asset classes and country distribution. Purchases are to continue for as long as the corona crisis requires, although at least until the end of 2020. In overall terms, the ECB will purchase securities worth EUR 1,100 billion this year, corresponding to around 10% of the Eurozone's gross domestic product. This puts all previous programmes in the shade. It

The world's most important central banks are in absolute crisis mode."

has also agreed to provide commercial banks with additional liquidity support and is fully prepared to expand its securities purchases again if necessary. The ECB is therefore demonstrating that it is not wasting time and is doing everything it can to ensure favourable financing conditions.

**Commodities**

If all stockmarkets values collapse, gold is a safe asset. The precious metal has earned this reputation over many years. The price almost always rises when share prices tumble. At the end of February this year, however, the price of gold fell briefly as selected investors were asked by lenders to provide additional liquidity. The price of gold rose by around 7% in April, to reach USD 1,686.50 per troy ounce. Relative to the start of the year the precious metal is trading around 11% higher. The glut of money provided by central banks, negative real yields, a US currency that in our view is exhibiting a weakening trend along with unbroken demand are all reasons why we have overweighted gold in our portfolios.

"Gold - a key element of our managed portfolios."

Certain oil companies are currently struggling with massive problems. Since the coronavirus brought the global economy to a standstill, there has been a dramatic collapse in demand. At present, around 30 million fewer barrels a day are being consumed than are being produced. This is the lowest level of demand for oil since 1995. The situation is being exacerbated by the price war that broke out between Russia and Saudi Arabia in early March. After negotiations broke down, the Kingdom flooded the oil market that was already full to the brim. This situation reached its apogee on 20 April. Oil suppliers were briefly obliged to pay buyers USD 37 per barrel for the purchase! Never before had oil prices been in such negative territory. And inventories have rarely been so full to the brim. In particular, the central transshipment centre in Cushing, Oklahoma, reported that it would soon be completely booked out.

"The interim peak in the oil price collapse occurred on 20th April - for a short time oil suppliers had to pay buyers USD 37 per barrel for the purchase!"

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Oil price (WTI) - 1 year


For this reason, hardly anyone wanted to commit to the physical purchase of the oil in May. At the end of April, the price for West Texas Intermediate (WTI) recovered and was listed at just under USD 19 per barrel. If the price were to stagnate at USD 20 in the long term, hundreds of US producers would be pushed to the brink of collapse. This in turn would have a massive impact on the American economy. With more than ten million employees, the energy sector accounts for around 8% of US GDP.

"If oil prices were to stagnate at USD 20 in the long term, hundreds of US producers would be pushed to the brink of collapse."

## Currencies

As a result of Covid-19, the euro has lost value in trade-weighted terms. This is due to the determined action of the ECB and its member countries. The expansionary monetary policy of the ECB has led to a dramatic increase in government spending to contain the consequences of the pandemic. This has increased the likelihood that the Eurozone will weather the current crisis better than the 2008 financial crisis. In addition, the Eurozone can rely on a social security system. Selected countries have the instrument of short-time work in addition to unemployment insurance. Social insurance systems will markedly dampen the drop in household incomes in Europe. The USA, by contrast, provides only marginal support for the unemployed. Compared with the USA, the Eurozone is therefore likely to perform better in terms of future consumption trends. This outlook should support the euro. In the coming months, a development around the USD 1.10 level per euro is a probable scenario.

"Over the coming months, a devel-opment around the USD 1.10 level per euro is a realistic scenario."

## Market Overview 30 April 2020

| Stock indices (in local currency) | Current | 1 Mt (%) | YtD (%) |
|---|---|---|---|
| SMI | 9,629.40 | 4.83 | -6.71 |
| SPI | 11,905.85 | 5.18 | -7.26 |
| Euro Stoxx 50 | 2,927.93 | 5.40 | -21.22 |
| Dow Jones | 24,345.72 | 11.22 | -14.07 |
| S&P 500 | 2,912.43 | 12.82 | -9.30 |
| Nasdaq | 8,889.55 | 15.49 | -0.57 |
| Nikkei 225 | 20,193.69 | 6.75 | -13.81 |
| MSCI Emerging Markets | 924.94 | 9.18 | -16.55 |
| **Commodities** | | | |
| Gold (USD/fine ounce) | 1,686.50 | 6.93 | 11.15 |
| WTI oil (USD/barrel) | 18.84 | -8.01 | -69.15 |
| **Bond markets** | | | |
| US Treasury Bonds 10Y (USD) | 0.64 | -0.03 | 1.28 |
| Swiss Government 10Y (CHF) | -0.52 | -0.20 | -0.05 |
| German Bund 10Y (EUR) | -0.59 | -0.12 | -0.40 |
| **Currencies** | | | |
| EUR/CHF | 1.06 | -0.25 | -2.56 |
| USD/CHF | 0.97 | 0.44 | -0.13 |
| EUR/USD | 1.10 | -0.69 | -2.30 |
| GBP/CHF | 1.22 | 1.87 | -5.21 |
| JPY/CHF | 0.90 | 0.76 | 1.10 |
| JPY/USD | 0.01 | 0.32 | 1.35 |

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