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Investment Report

May 2021

Factum AG
Current positioning:

Portfolio balanced	Neutral	Current	Change*
Liquidity	3%	8%	↗
Bonds	37%	29%	→
Shares	45%	46%	↘
Alternative investments	15%	17%	→

**Changes since the last Investment Report (19 April 2021) & current assessment.*

Strategy overview

In our view, the short-term upside market potential is limited and the risks of a temporary setback have increased. Technical indicators also suggest that equity markets have become rather frothy and are ripe for cooling off. The S&P 500, for example, has moved further away from its 200-day moving average than at any time in the last five years. Moreover, the US market is demonstrating surprisingly stable seasonal patterns across different time horizons. The phases from May to September are often characterised by lower growth rates and higher volatility. However, one should not rigidly follow the saying “sell in May and go away”, as there have been exceptions here too. Instead, in our view, equity holdings could be built up with care during the summer months, which are often characterised by correction phases.

“Equities require greater caution – at least in the short term.”

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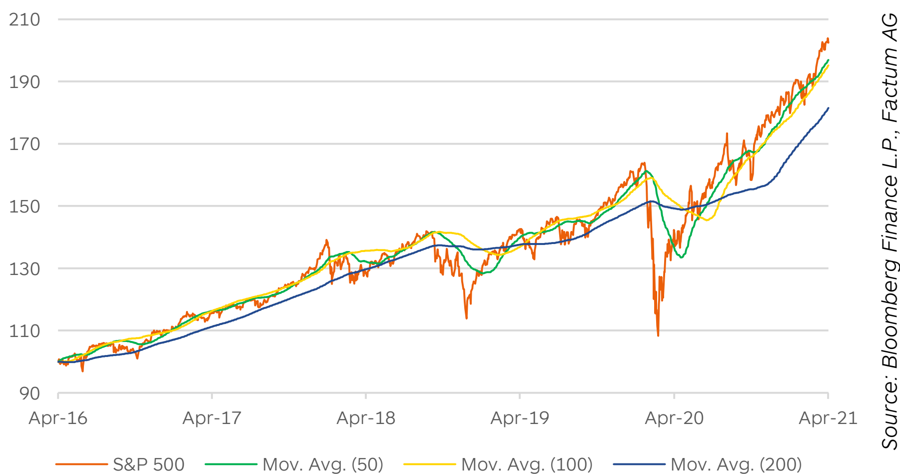
Cooling period on the US equity market?



"Rebalancing in second half of April."

Rising stock prices (with unchanged or falling bond prices) led to the equity ratio in our managed portfolios rising significantly above the tactically defined levels in the past month. For this reason, we have reduced the domestic market exposure of the respective reference currency counter-cyclically to the target ratio.

"Tactical asset allocation – reducing the equity ratio."

Towards the end of April, we consequently took advantage of the extremely positive stockmarket sentiment to realise part of the gains that had been achieved during the first four months and to reduce the equity ratio to an almost neutral ratio.

"Sale of certificate on European sector indices."

The strong recovery in the cyclical automotive, banking and energy sectors meant that our investment solution on the aforementioned indices was able to outperform the European market as a whole. After this substantial rise, the potential for losses seemed out of kilter relative to the earnings opportunities. We therefore sold the certificate and invested the proceeds ratio-neutrally in an ETF on MSCI Europe.

"Raising the USD exposure."

True to our philosophy that foreign currencies are difficult to forecast and do not generate returns on their own, we had previously hedged the majority of foreign currencies in our global bond and equity positions. Due to the performance drawbacks – especially in the current year – we decided to correct this extreme positioning somewhat after a short-lived USD weakness in April, and have already increased liquidity in US dollars for a later increase in the world equities ratio.

Performance of the US Dollar Index

Politics

Towards the end of last month the Biden administration unveiled the "American Families Plan". This ten-year programme focuses mainly on investments in education and healthcare. The volume was said to be USD 1.8 trillion. The "American Families Plan" is the second part of the "American Job Plan" presented a few weeks ago, which, with a scope of USD 2.25 trillion, is mainly aimed at improving America's infrastructure. Significant parts of the spending plans in excess of the total amount of USD 4 trillion are to be financed through tax increases for high earners and companies. This approach had also been flagged by Biden during his presidential campaign. It is important to distinguish the emergency programme to mitigate the consequences of the pandemic from these long-term spending plans. This was launched in March with a volume of USD 1.9 trillion. This followed a short-term support programme of USD 900 billion adopted at the end of December by his predecessor in the White House, Donald Trump. Even before that, the US administration had launched a variety of initiatives to mitigate the impact of the pandemic during the course of 2020, comprising a total volume of around USD 2 trillion.

"US President Joe Biden has big plans."

Economy

As is underscored by the growth figures for the first quarter, the US economy is on an extremely buoyant course. GDP growth for the first three months of the year accelerated markedly, expanding at an annualised rate of 6.4%. In the final quarter of 2020, growth had been 4.3%. This growth was due mainly to a boom in private consumer spending triggered by the reopening of the economy and government stimulus payments, as well as strong growth in residential construction and equipment investment. This is also illustrated by the strong growth in domestic consumer demand of 9.8% (GDP excluding inventories and foreign trade). In the previous quarter, this had only been half as high at 4.4%. The economic recovery in the USA is likely to peak in the current second quarter. The opening up of the economy and pent-up demand, coupled with high household savings, will lead to a further strong increase in consumer spending. Corporate investment activity should also continue in the wake of the economy rebound. Moreover, low inventories will boost production and restocking will also support growth.

"In annualised terms, US GDP expanded 6.4% in Q1/21."

Equity markets

We are a little more cautious about equity markets than we were a few weeks ago, and have therefore realised some of the gains we made in the first four months and reduced the equity ratio to almost neutral. The main reasons for our momentarily more cautious stance on equities are mainly technical, seasonal patterns and the significantly high inflows into equity funds in the first quarter. By reducing the equity ratio, we are taking our reservations into account. If the parameters permit, however, we can well imagine using part of the current liquidity overweight in the event of possible price setbacks on equity markets in the range of 4% – 8% in order to increase the equity ratio to a substantial overweight.

"We have become more cautious about equities – at least at the present moment in time."

Bond markets

At its meeting at the end of March, the US Federal Reserve drew attention to the progress made by the economy. The statement noted that economic activity has strengthened due to the progress of the vaccination programme and the unprecedented fiscal policy measures. It was also noted that there have been some improvements recently in the sectors most affected by the pandemic. As far as inflation is concerned, the Fed statement now says that it has been pushed higher mainly due to "temporary factors". The current rise in inflation above 2% this year will not hit the Fed's inflation target, according to Powell. A little more confidence was also evident in the risk assessment of the economic outlook. The report now states that the ongoing health crisis continues to pose risks to the economic outlook, whereas in

"Nothing new from the Fed."

March there was still talk of substantial risks. Those who had been waiting for the first indication of an imminent reduction in bond purchases were disappointed. When asked at the press conference whether it was time to talk about tapering, Fed Chairman Powell answered with a clear no. The improvement in the economy so far is still “not close (enough) to the substantial further progress” called for in the forward guidance. The employment gap is still too large and realised core inflation too low to start tapering. The coming months are set to bring further progress, however. For this reason we are expecting the first signs of tapering during the course of the second half of the year. After all, Fed officials have always affirmed that they will inform the public in good time about such a move – well in advance of a corresponding monetary policy decision. In practice, the Federal Reserve could reduce its bond purchases by USD 15 billion per meeting, meaning that tapering would last throughout 2022. After that, there could be a break and the Fed would then be ready for a first interest rate hike from the second half of 2023 onwards.

Commodities

The oil price gained +7.5% in April and +30% since the start of the year, benefiting from markedly improving economic data. It is notable that demand for fossil fuels is increasing much faster than the supply is expanding. When it comes to boosting supply, it will be down to OPEC and Saudi Arabia to provide the bulk of future growth. At present, however, they have little interest in significantly expanding production and thus risking a significantly lower price.

“The price of oil (WTI) has gained around 30% in the current year.”

Oil price (WTI)

Source: Bloomberg Finance L.P., Factum AG

Increased military activities have been apparent in recent weeks. Primarily in the Taiwan Strait, where China is asserting territorial claims, as well as along the Russian-Ukrainian border. Larger skirmishes or even more widespread conflagrations would trigger a hike in oil prices. As the recent blockage of the Suez Canal caused by the container ship "Ever Given" in March showed, the smooth transportation of goods and raw materials remains an important prerequisite for economic activities.

Currencies

As mentioned at the beginning of the Investment Report, we took advantage of the recent weakness of the greenback to raise our USD exposure slightly. The pick-up in US growth relative to the rest of the world suggests that the moderate appreciation of the currency seen since the beginning of the year could continue. Nevertheless, in our view, the longer-term trend for the US dollar remains negative. It is still around 10% overvalued relative to purchasing power parity, which suggests there is unlikely to be any significant appreciation in the long term.

"We have taken advantage of the recent weakness of the US currency and increased our USD exposure slightly."

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Market overview 30 April 2021

Stock indices (in local currency)	Current	1 Mt (%)	YtD (%)
SMI	11,022.34	0.94	5.61
SPI	14,179.11	1.17	6.39
Euro Stoxx 50	3,974.74	1.93	12.92
Dow Jones	33,874.85	2.78	11.30
S&P 500	4,181.17	5.34	11.83
Nasdaq	13,962.68	5.43	8.55
Nikkei 225	28,812.63	-1.25	5.67
MSCI Emerging Countries	1,347.61	2.50	4.79
Commodities			
Gold (USD/fine ounce)	1,769.13	3.60	-6.81
WTI oil (USD/barrel)	63.58	7.47	31.04
Bond markets			
US Treasury Bonds 10Y (USD)	1.63	-0.11	0.71
Swiss Eidgenossen 10Y (CHF)	-0.20	0.08	0.35
German Bundesanleihen 10Y (EUR)	-0.20	0.09	0.37
Currencies			
EUR/CHF	1.10	-0.83	1.54
USD/CHF	0.91	-3.23	3.15
EUR/USD	1.20	2.47	-1.60
GBP/CHF	1.26	-3.01	4.29
JPY/CHF	0.84	-2.02	-2.52
JPY/USD	0.01	1.28	-5.49

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