Investment Report

November 2022

Factum AG
Current positioning:

Portfolio balanced	Neutral	Current	Change*
Liquidity	3%	5%	→
Bonds	35%	31%	→
Shares	47%	47%	→
Alternative investments	15%	17%	→

**Changes since the last Investment Report (14 October 2022) & current assessment.*

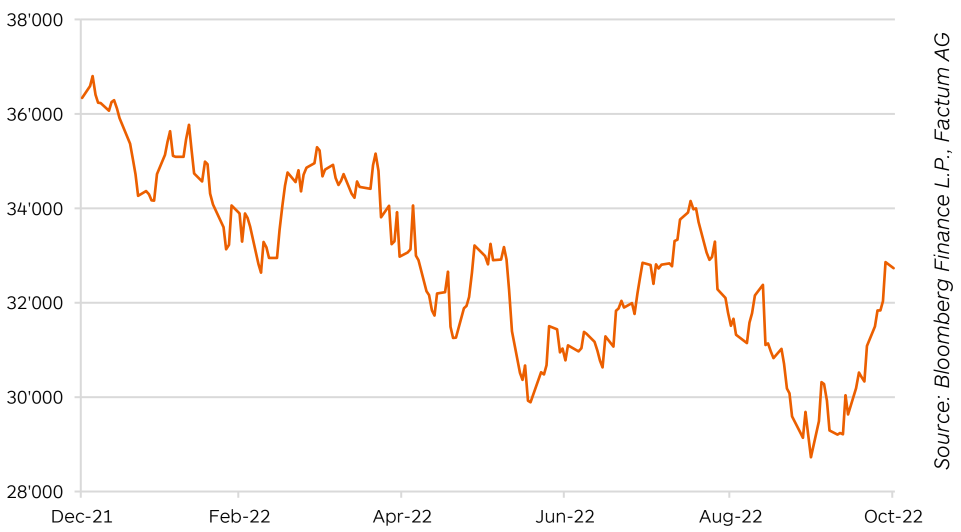
Strategy overview

The stock markets started off the final quarter with a fireworks display of prices. The Dow Jones Industrial Average Index gained 14% in October, the best monthly performance since 1976. Over the past 100 years, there have only been nine months with an even better monthly performance. The positive equity month of October was mainly due to a technical countermovement. Meanwhile, economic data continues to be gloomy and Europe could fall into recession in the first half of 2023. This fanned hopes that an economic slowdown could lead to a reduction in the pace of interest rate hikes. Stock markets were also boosted by comments from some Fed members suggesting that the US central bank might slightly ease the pace of monetary tightening. Comments by ECB chief Lagarde were also interpreted in the same direction. We continue to expect volatile equity markets in the coming months, although we consider a neutral weighting of the equity ratio to be adequate.

"The Dow Jones Industrial Average Index posted its best monthly performance in October since 1976."

FACTUM

Dow Jones Industrial Average Index



Politics

The mid-term elections in America on 8 November are of enormous importance. They will determine whether the Democrats can maintain their narrow majorities in the Senate and the House of Representatives. They are also a run-up to the 2024 presidential election.

"In the US, the midterms are coming up."

35 of the 100 seats in the Senate have to be filled. Although things looked disastrous for the Democrats in the summer, they have since made up ground. Recently, however, the Republicans have caught up again. Here the race is extremely close, a so-called "toss-up" and a forecast very difficult. In the House of Representatives, where all 435 seats are being reappointed, the Republicans have a better chance of winning. According to data analyses by FiveThirtyEight, this lies at around 80 percent. At this juncture, it is worth noting that the state of the economy is considered by Americans to be one of the most important factors influencing the elections. Apart from Congress, 36 out of 50 governorships are also up for re-election, along with secretaries of state and many other offices in the constituent states, as well as the majority of the legislatures.

"In the Senate, 35 of the 100 seats are up for election and all 435 seats in the House of Representatives."

The mid-term elections are mainly to be interpreted as a verdict on the president in office. Should Biden's government now lose the majority in one or even both chambers, its hands will be tied for the next two years.

"Is the Biden administration degenerating into a lame duck?"

Economy

In the Eurozone, many signs point to a recession. According to the ZEW Indicator, economic expectations have brightened slightly, but at -59.2 points after -61.9 points in the previous month, the Economic Sentiment Index remains far down in the contraction zone. 68% of the survey participants expect the economic situation to deteriorate, while only 9% expect it to brighten up. And this even though the current economic situation was assessed much more pessimistically than in the previous month. The situation index fell from -60.5 points to -72.2 points and thus reached its lowest level since August 2020. Consumers are even more pessimistic about the economic situation. In September, the Consumer Confidence Index of the EU Commission remained at the second lowest level since the introduction of the euro.

"There are growing signs of a recession in the Eurozone."

Equity markets

Apart from emerging markets, global equity markets had an excellent month. The most important stock exchanges recorded growth rates in the range of four to ten percent. As mentioned above, the Dow Jones Industrial Average Index even rose by around 14%. After the sharp declines in stock prices in August and September, October brought a welcome recovery. However, we continue to assess the further prospects on the stock markets with a fair amount of scepticism. Of course, it will also help the stock markets if the central banks have to make their monetary policy less restrictive. But the main reason for the possible restraint lies in the growth risks that will manifest themselves in the coming quarters. In the bond markets, an economic downturn usually lowers yields, but in the equity markets the effect is rarely positive. A recession usually shrinks corporate profits, which on average fall by around 20% during a recession. Often, equity markets only reach their low point a few months after the onset of a recession. In addition, analysts' profit expectations for the coming twelve months remain very ambitious. Profit growth of 7% is expected for the USA, 5% for the Eurozone and 6% for the world as a whole. These profit expectations are not compatible with a development in recession.

"Despite an excellent month for equities in October, things are likely to remain bumpy for the next few months."

Bond markets

For the fourth time in a row, the Fed decided to raise key interest rates by 75 basis points. If one includes the rate hikes in March (+25 basis points) and May (+50 basis points) of this year, the rate hikes add up to 375 basis points, which is the most significant rate hike cycle in decades. Fed President Jerome Powell specified at the beginning of November that now that the key interest rate has reached a clearly restrictive level, it is less a question of the

"Fourth rate hike of 75 basis points by the Fed."

pace and more a question of how far the key interest rates still have to be raised. In this context, the Fed wants to identify clear indications of a cooling of the overheated labour market and a slowdown in inflation. We expect the Fed to slow the pace of rate hikes, also against the backdrop of the weakening economy. The next Fed meeting will take place on 14 December.

Commodities

The decision of OPEC+, the organisation of oil-exporting countries including Russia, to reduce oil production by 2 million barrels per day can be seen as an upside risk for the oil price and also for global inflation, even though in the past OPEC+ has never been able to fully meet its production quotas. An effectively feasible production reduction of around 0.75 - 1 million barrels per day seems more realistic, although this is not insignificant given the pre-existing supply shortage. On the other hand, there are downside risks for the oil price as well as for industrial metals should there be an even more significant economic slowdown than forecasted.

"Reduction in oil production can be seen as upside risk to the price."

Currencies

The US currency is at a 20-year high against the currencies of its major trading partners. The main factor here is the aggressive rate hike cycle of the Fed. As long as this policy continues, this is likely to provide support for the US dollar. This could change should economic growth in the US weaken significantly compared to its major trading partners. Currently, however, economic growth in the Eurozone is in considerably more trouble because of the energy crisis surrounding Russian gas. In this context, a recovery of the euro against the US dollar as well as vis-à-vis the Swiss franc could be a long time coming.

"There is no immediate sign of the US currency weakening."

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Market overview 31 October 2022

Stock indices (in local currency)	Current	1 Mt (%)	YtD (%)
SMI	10'827.93	5.46	-13.50
SPI	13'803.08	4.84	-16.06
Euro Stoxx 50	3'617.54	9.12	-13.15
Dow Jones	32'732.95	14.07	-8.42
S&P 500	3'871.98	8.10	-17.72
Nasdaq	10'988.15	3.94	-29.31
Nikkei 225	27'587.46	6.36	-2.25
MSCI Emerging Countries	848.16	-3.09	-29.22
Commodities			
Gold (USD/fine ounce)	1'633.56	-1.63	-10.70
WTI oil (USD/barrel)	86.53	8.86	15.05
Bond markets (change in basis points)			
US Treasury Bonds 10Y (USD)	4.05	0.22	2.54
Swiss Eidgenossen 10Y (CHF)	1.16	-0.07	1.30
German Bundesanleihen 10Y (EUR)	2.14	0.03	2.32
Currencies			
EUR/CHF	0.99	2.32	-4.60
USD/CHF	1.00	1.45	9.68
EUR/USD	0.99	0.82	-13.09
GBP/CHF	1.15	4.19	-6.87
JPY/CHF	0.67	-1.31	-15.07
JPY/USD	0.01	-2.68	-22.60

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