Investment Report

November 2021

Factum AG
Current positioning:

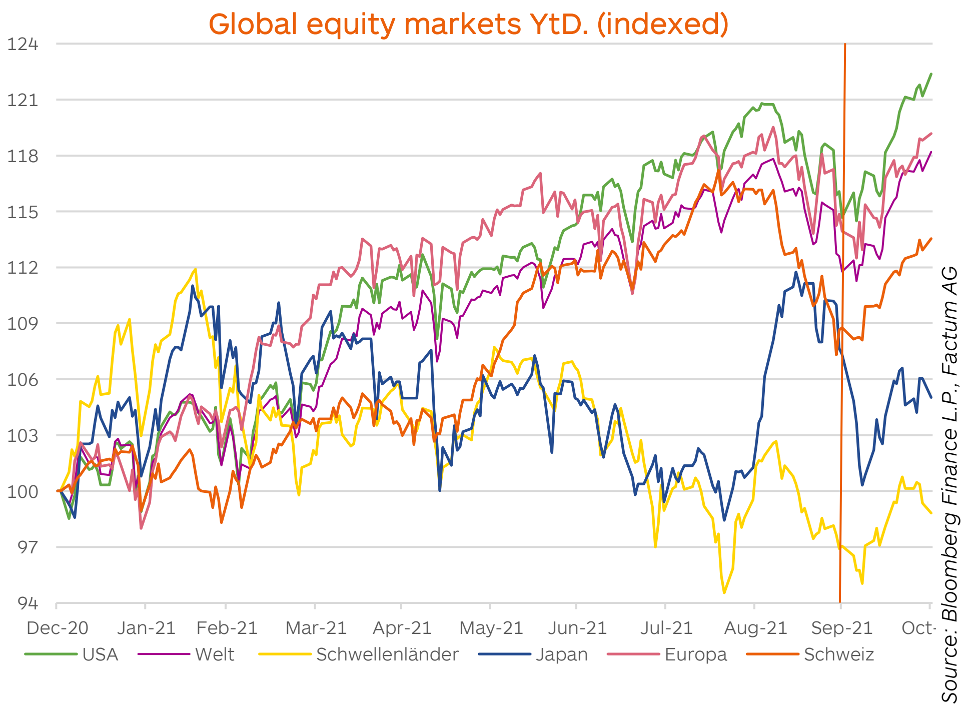
Portfolio balanced	Neutral	Current	Change*
Liquidity	3%	7%	→
Bonds	37%	29%	→
Shares	45%	49%	→
Alternative investments	15%	15%	→

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

Strategy overview

Recent data confirms our assessment that the global upturn will continue and that monetary policy will remain expansionary. In our view, an interest rate hike in the US as early as mid-2022 is an unlikely scenario. The current reporting season shows that supply bottlenecks and higher raw material costs are being well absorbed by companies. Valuations are not excessive. Against this backdrop, we expect a positive final quarter and see signs of “risk-on” sentiment. As a consequence we are sticking to the overweighting of the equity ratio. Most of the September downturn was made good very quickly, with some company stocks even reaching new all-time highs. During the past month of October we did not make any changes in our managed mandates from a tactical perspective or at the individual stock level.

“Most of the September downturn was made good very quickly, with some company stocks even reaching new all-time highs.”



Politics

The Republican candidate Glenn Youngkin won the closely-watched gubernatorial election in the US state of Virginia, representing a major defeat for the Democratic Party as well as for President Biden. The events of recent months, including hasty and poorly coordinated troop withdrawals from Afghanistan and runaway inflation, have been a disaster for the Biden administration. However, the main damage has been done by wrangling over the two legislative packages for infrastructure upgrades and a far-reaching expansion of social security. The left wing of the Democratic Party is taking the broadly uncontested infrastructure bill hostage in order to hammer through a progressive revolution. This is doing great damage to President Biden.

"Difficult times for President Biden and the Democrats – Glenn Youngkin wins Virginia."

Democrats need to take their defeat in the state of Virginia as a wake-up call. Only a united Democratic Party can succeed in averting the almost certain loss of both Houses of Congress in 2022. These are truly exciting times, not least in view of the 2024 presidential election. All polls show that Trump is by far the most popular representative of the Republican Party. There is an over 80% probability that he would win primaries for the presidential race, storming ahead of all other candidates. If the Democratic Party does not manage to present a more united front, it is likely to drive floating voters into the arms of the Grand Old Party in future elections.

"Trump is omnipresent – polls indicate that he is 80% likely to win primaries for the race to the White House."

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Economy

Current sentiment indicators do not point towards an abrupt slowdown in growth or even stagnation. For example, US consumer confidence rose in October for the first time in three months. The Conference Board Index rose markedly from 109.8 to reach 113.8 points. Both the current conditions as well as the outlook were rated brighter. In particular, steady improvements to the labour market point to higher incomes and an increase in consumption. Consumers surveyed also reported a greater willingness to make big-ticket purchases in the coming months. Sentiment indicators in the Eurozone also turned out better than expected in October. The overall economic confidence index for the single currency area rose from 117.8 to reach 118.6 points, the second highest level ever recorded. Brighter sentiment was broad-based across almost all economic sectors and countries, indicating a continued strong recovery.

"Sentiment indicators continue to point to robust growth."

Equity markets

Positive impetus for stockmarkets has so far been provided by the third quarter reporting season. In the United States, more than 80% of companies in the S&P 500 have published figures for the past quarter. Both sales and earnings came in significantly ahead of what analysts had been expecting. For example, 67% of companies produced positive surprises in terms of sales, and 82% in terms of earnings. From a historical perspective, both values are above average. In overall terms, corporate earnings increased around 40% relative to the previous quarter, while sales rose some 18%. The oft-proclaimed erosion of profit margins brought about by global supply bottlenecks and associated price increases has therefore not actually materialised. This is also because IT and energy companies in particular have been generating strong earnings.

"Very good Q3 corporate results in the USA."

Bond markets

As expected, the Fed gave the go-ahead for the tapering of bond purchases at its meeting at the beginning of November. As recorded in the last minutes, monthly purchases will be reduced for the first time in mid-November by USD 15 billion from the current USD 120 billion to USD 105 billion. According to the assessment of the Federal Reserve, the tapering will continue at the same pace – USD 15 billion per month – in the following months. The pace could be adjusted, however, if shifts in the economic outlook make this expedient.

"Fed signals that it is set to begin tapering its bond purchases."

At present, the question of when base rates will be raised is not an issue for the Fed. J. Powell has repeatedly stated that now is the time to taper bond purchases. He argues, though, that it is still too early to discuss base rate hikes. In our view, it seems the Federal Reserve wants to keep all its options open. However, J. Powell cryptically stated that the conditions for interest rate hikes might be met in the second half of 2022. In overall terms, the Fed meeting did not bring any new insights, although the tapering decision had been well prepared.

"Possible base rate hikes in the USA probably not before the second half of 2022."

Commodities

Both the fundamental outlook for the US currency and the ongoing global reflation are supporting the gold price. With the growth momentum and marginally higher interest rates, real interest rates are now likely to have bottomed out in the current cycle. The "risk-on" mode also detracts from its characteristics as a safe-haven currency. In technical chart terms, the price of gold appears to have levelled off. While the valuation is slightly elevated, sentiment certainly cannot be said to be euphoric. Positive and negative aspects are consequently broadly balanced, which is why we have given gold a neutral weighting.

"Positive and negative aspects balance each other out, which is why we have given gold a neutral weighting."

Currencies

The slight weakening of the economic upturn has not left the foreign exchange market unscathed. The euro has been steadily losing ground against the US dollar since May, and is now trading in the region of 1.16. The key factor remains the different monetary policy expectations. The ECB's expansionary stance is not likely to change significantly any time soon. In addition, economic worries are currently weighing down on the euro. However, we think the euro will not depreciate further against the USD, and is currently trading at the lower end of the range. In our view, a price trend between USD 1.15 and 1.20 per euro is a realistic scenario for the coming months.

"In our view, the EUR/USD currency pair is currently at the lower end of the bandwidth."

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Market overview 29 October 2021

Stock indices (in local currency)	Current	1 Mt (%)	YtD (%)
SMI	12,108.17	4.00	16.36
SPI	15,613.26	3.78	17.15
Euro Stoxx 50	4,250.56	5.20	22.56
Dow Jones	35,819.56	5.93	18.77
S&P 500	4,605.38	7.01	24.03
Nasdaq	15,498.39	7.29	20.89
Nikkei 225	28,892.69	-1.90	6.81
Stocks Emerging Countries	1,264.75	1.00	-0.14
Commodities			
Gold (USD/fine ounce)	1,783.38	1.50	-6.06
WTI oil (USD/barrel)	83.57	11.38	72.24
Bond markets			
US Treasury Bonds 10Y (USD)	1.55	0.06	0.64
Swiss Eidgenossen 10Y (CHF)	-0.03	0.13	0.52
German Bundesanleihen 10Y (EUR)	-0.11	0.09	0.46
Currencies			
EUR/CHF	1.06	-1.87	-2.11
USD/CHF	0.92	-1.67	3.49
EUR/USD	1.16	-0.19	-5.39
GBP/CHF	1.25	-0.15	3.60
JPY/CHF	0.80	-4.10	-6.29
JPY/USD	0.01	-2.41	-9.39

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