

Investment Report

November 2020

Factum AG Current positioning:			
Portfolio balanced	Neutral	Current	Change*
Liquidity	4%	12%	↗
Bonds	37%	29%	→
Convertible bonds	4%	0%	→
Shares	41%	42%	↘
Alternative investments	14%	17%	→

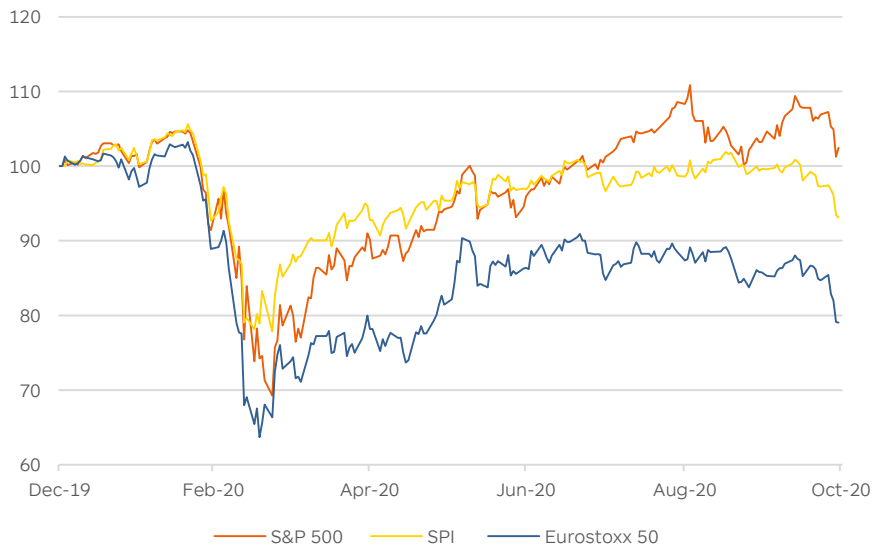
**Changes since the last Investment Report (06 October 2020) & current assessment.*

Strategy overview

International stockmarkets saw prices drop sharply at the end of October. Once again, European markets were worst hit, seeing falls in the region of 7.5%. Germany's leading index, the DAX, actually lost 8.5% of its value. US stockmarkets also lost ground, however. By contrast, Asian stockmarkets and emerging markets performed better, falling only 2.5%. In our view, the reason for the weakness in share prices can be found in the rising number of Covid-19 cases and the tough measures imposed by various governments to constrain public life and thus curb consumption.

“Equity markets firmly in the grip of the pandemic.”

Equity markets YtD. (total return; indexed)



Source: Bloomberg Finance L.P., Factum AG

At the beginning of October, we reduced the equity ratio in our mandates for all risk profiles by between 3% and 10%. Until the significant price losses recorded at the end of October, global equity markets continued the recovery that began in mid-September and, measured in terms of the S&P 500, were still around 2% short of their all-time high. The risk/return profile of the conditional capital protected bonus certificate used in the mandates (redemption on 21 October 2020) deteriorated significantly with the recent rally. A maximum additional gain of 1.7% was offset by a potential loss of 7.3% by 21 October 2020, which is why we decided to realise the gains on this position prematurely. As a consequence, as can be seen on Page 1 (Current positioning), we are only marginally overweighted in equities in a balanced mandate. In addition, we “rebalanced” two of our selected investment instruments in the “world equities” asset class, and made a ratio-neutral compensation by increasing the share of the passive component, the iShares MSCI World SRI. As a result, we have slightly reduced the overall ratio of growth stocks in the portfolio.

“Transactions in our managed mandates in October – profit taking & more defensive short-term outlook.”

In our view, the currently overweighted liquidity ratio of 12% in a balanced mandate is not permanent. This offers us protection against a protracted final outcome of the US election campaign. The tight results recorded in numerous “swing states” open the door to prolonged legal proceedings. On the other hand, the time of the year favours equities. As customary, we are weighing our investment decisions carefully, but are sticking to our positioning for the present. We will review these once there are clear US election results – for the US presidency and senate.

Politics

Five and a half weeks after the death of Ruth Bader Ginsburg, the Supreme Court once again has its complete complement of judges. At the end of October, the Senate in Washington confirmed the nomination of Amy Coney Barrett by 52 votes to 48. She is a 48 year-old law professor from South Bend, Indiana, who most recently served on a federal appeals court in Chicago. Of the nine members of the Supreme Court, six now belong to the conservative wing. This will be a particular encouragement for republicans and conservatives throughout the country.

US elections (status: 9 November, 10 a.m.)

According to estimates, about two-thirds of the nearly 240 million American voters are thought to have cast their votes. You have to go back as far as 1960 to find a similarly high voter turnout. Back then, it was John F. Kennedy versus Richard Nixon, and Kennedy was the eventual winner. On Friday and Saturday, high-profile TV channels such as CNN and NBC reported that Joe Biden had won the state of Pennsylvania and consequently the US presidential election. This brings the total number of electoral votes to over 270, which means he can no longer be overtaken. Of the 45 presidents, only nine failed to be re-elected. The last time this happened was in 1992 when Bill Clinton replaced George Bush senior. As far as can be ascertained at present, the Democrats failed to secure a majority in the Senate, which is a major blow given their high hopes and the huge sums that were poured into the campaign. However, the situation will not be definitively clarified until early January 2021, when a so-called “super election” takes place in the state of Georgia – where two senatorial seats are up for grabs.

“In our view, the current liquidity ratio of 12% in a balanced mandate is not permanent.”

“Supreme Court Judge Barrett has been sworn in.”

“CNN and NBC were the first to announce that Joe Biden had won the election.”

President Trump was generally in the lead in the majority of the “swing states” when the vote count started. This was because votes that were physically cast in the ballot box were counted first, and postal votes were counted last. As had widely been assumed, most Republicans cast their votes directly at the ballot box.

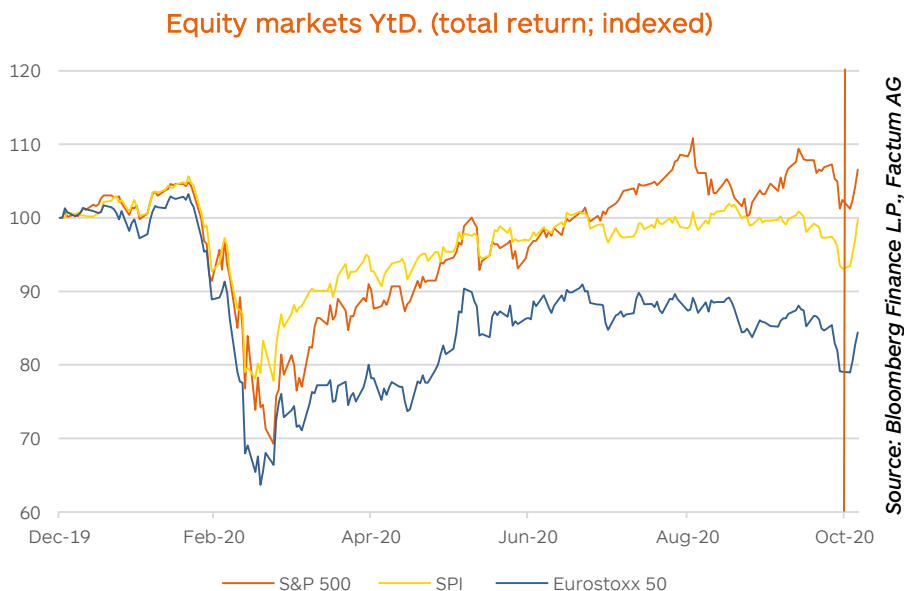
“At the start of the count, President Trump was in the lead in a number of swing states.”

President Trump and his administration repeatedly voiced accusations of fraud and wanted to stop the count. There will also be recounts in some states where the result is particularly tight. Whether this will change anything at the end of the day is extremely doubtful.

“The US election will occupy attorneys and courts of law.”

The contentious outcome of the 2000 election between Bush and Gore had greatly unsettled the markets, as was noted in the last issue of the Investment Report. On that occasion the S&P 500 lost around 12% between 7 November 2000 and mid-December. This time round, the stockmarket reacted very differently. In the week of the election the S&P 500 gained some 7%, while the SPI in Switzerland and the Eurostoxx 50 has also posted gains, as the following chart illustrates.

“How are financial markets reacting to the election cliffhanger?”



The febrile atmosphere during the current election campaign could mean that neither of the two candidates acknowledges an election defeat. President Trump is adding fuel to the fire when, as occurred last week, he is unwilling to guarantee a peaceful transfer of power from today’s perspective. Within this context, we are expecting a period of increased equity market volatility up until the US presidential elections and beyond. Once the race

has been decided, however, fundamental factors are likely to prevail again. In our view, these still speak for equities.

Economy

The US economy grew more strongly in the 3rd quarter than had originally been forecast. Compared to the previous quarter and extrapolated for the year as a whole, it expanded 33.1%, following a contraction of historic proportions of 31.4% in the second quarter. This meant that three quarters of the 2nd quarter GDP decline was made good once again. However, there is still a shortfall of 3% compared to the level of the third quarter of 2019, and of 3.5% compared to the pre-crisis level. The current increase in new Covid-19 infections has the potential to delay the economic recovery, meaning it would take longer to return to pre-crisis levels.

“US economy grew robustly in the third quarter.”

The industrial PMI of the Caixin survey institute, which tends to ask small and medium-sized producers about their business performance, reached 53.6 points in October, its highest level since January 2011, reflecting the continued strong momentum in the Chinese industrial sector. This is in line with the recently published PMIs. At the same time, however, PMI Manufacturing lost ground slightly in this survey, easing from 51.5 to 51.4 points. By contrast, however, PMI Services climbed from 55.9 to reach 56.2 points. PMI Composite, which combines survey results from the industrial and service sectors, rose from 55.1 to reach 55.3 points, signalling a continued robust recovery in the Chinese economy.

“Chinese PMI Manufacturing records highest level in 10 years.”

Equity markets

As mentioned above, stockmarkets were stuck in the headlights of rising Covid-19 related infections at the end of October. First and foremost are worries about new lockdowns, which would inevitably trigger a downgrading of growth expectations. Market jitters at the end of October are also due to dwindling hopes of reaching an agreement in the short-term on a new stimulus package in the United States. But this is only a question of when it comes and how substantial it turns out to be. As already mentioned several times in previous issues, the interest rate situation means that equities are the only viable option at present. At the same time, however, we consider broad diversification to be essential.

“Broad diversification remains essential, due to the many potential pitfalls.”

Bond markets

The ongoing bond-buying programmes established by the major central banks are one reason why bond markets have shown significantly less volatility for months than was the case historically during comparable economic phases. New economic data should become more relevant for corporate bonds in the coming weeks and months. Although a slowdown in economic growth would not be a reason for additional purchases, the bond market is also likely to focus on the performance of corporate results. The economic programmes pursued by central banks have so far given special support to investment-grade bonds this year, and this is unlikely to change significantly in the near future.

“Central banks remain significant drivers.”

Commodities

When it comes to cyclical commodities such as industrial metals or crude oil, incoming economic data needs to be analysed in detail. Following the recovery in the spring of 2020, the commodities market has priced in positive economic data. For this reason disappointments need to be avoided, as otherwise profit-taking cannot be ruled out. Gold is clearly less dependent on the performance of the economy at large, including in comparison to other precious metals. However, even an investment in gold entails risks, such as a change in real interest rate expectations in the United States or a strengthening US dollar. In our view, however, these risks are currently low. We continue to consider gold attractive and consequently an important portfolio component.

“Strong recovery in cyclical commodities since the spring of 2020.”

Currencies

The development of the EUR/USD currency pair over recent months has been interesting. Since bottoming out in March 2020, in the middle of the coronavirus crisis, the euro has recovered to around 1.20 against the US dollar.

“Recovery in the EUR/USD.”



This is also because the principal spread of the virus had shifted temporarily from Europe to the United States in summer 2020. The euro also held up well against the Swiss franc, although not quite as markedly as against the US dollar. With the onset of autumn and with economic data no longer clearly exceeding higher expectations, the euro's recovery has given way to an interim correction. In the near future, the main currencies, the euro, US dollar, Japanese yen and pound sterling, could be subject to higher volatility in both directions due to various forthcoming events. This environment is likely to support the Swiss franc.

“A number of currency pairs are likely to see increased volatility in the coming months.”

Market overview 30 October 2020

Stock indices (in local currency)	Current	1 Mt (%)	YtD (%)
SMI	10,187.00	0.56	-0.89
SPI	12,724.65	0.52	-0.88
Euro Stoxx 50	3,193.61	-2.30	-12.58
Dow Jones	27,781.70	-2.18	-0.91
S&P 500	3,363.00	-3.80	5.57
Nasdaq	11,167.51	-5.11	25.40
Nikkei 225	23,182.12	0.67	-0.36
MSCI Emerging Countries	1,082.00	-1.62	-0.96

Commodities

Gold (USD/fine ounce)	1,885.82	-4.17	24.28
WTI oil (USD/barrel)	40.22	-5.61	-36.19

Bond markets

US Treasury Bonds 10Y (USD)	0.68	-0.02	-1.27
Swiss Eidgenossen 10Y (CHF)	-0.49	-0.09	-0.03
German Bundesanleihen 10Y (EUR)	-0.52	-0.14	-0.36

Currencies

EUR/CHF	1.08	0.07	-0.55
USD/CHF	0.92	1.90	-4.63
EUR/USD	1.17	-1.80	4.45
GBP/CHF	1.19	-1.51	-7.78
JPY/CHF	0.87	2.31	-2.11
JPY/USD	0.01	0.43	2.76

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