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Management Report
2nd Quarter 2010

Economic Developments on the Financial Markets during the Second Quarter of 2010

Stock markets got off to a good start in the 2nd quarter and reached their peak in April. This was followed by a sharp correction which went hand in hand with large fluctuations, the expression of greater uncertainty among investors as to future market trends and growing concern about the rapidly worsening euro crisis. Globally, the 2nd quarter showed a slowdown in the rate of growth of leading economic indicators. Fears of inflation died down relatively quickly as in both the USA and in the Eurozone core inflation clearly continued to fall. Even the growth of important monetary aggregates declined, pointing to sagging economic growth. The situation was exacerbated by a flurry of announcements from European governments regarding wide-ranging spending cuts and resurgent scepticism about the health of the European banking system. All stock markets saw their values tumble. Even the relatively defensive Swiss stock market was hit by a heavy loss of 10% in Swiss francs during the 2nd quarter. The only exception was the German stock market where export values benefited to some extent from the significant weakening of the euro. All the major sectors saw equity prices fall. Sectors which are most sensitive to business cycles, such as commodities, industry, technology and finance, recorded the weakest performance. The energy sector was the hardest hit, having to contend both with cyclical worries, and the events connected with the oil spill in the Gulf of Mexico. The defensive sectors, including telecommunication services, utilities and consumer products performed a little better, although they too suffered setbacks.

Expressed in local currencies, most government bond markets saw significant increases in the 2nd quarter. They benefited from an increasingly uncertain economic climate, falling core inflation, and the flight to quality in the wake of the high financial risks within the European currency union. By contrast, the situation in some European bond markets presented a quite different picture: the interest rate premium for Greek, Portuguese and Spanish bonds as compared with German bonds rose sharply once again. Although European policymakers have taken a number of decisions to stem the financial crisis, many market participants remained sceptical about the implementation of those measures and about the chances to restore financial stability. The massive and increasing US debt, on the other hand, did not seem to rattle the markets. Quite the contrary, US treasuries appeared to remain a safe haven for investors wary of the growing financial risks.

Concerns about the high level of sovereign debt in certain European countries triggered a loss of confidence in the euro and a markdown in other major currencies such as the US dollar and the Japanese yen. The euro fell in value against the Swiss franc. At first, the fall remained moderate, as the Swiss National Bank (SNB) intervened massively on currency markets, focussing primarily on buying euro-denominated government bonds against Swiss francs. Its intention was, if not to stop the appreciation of the Swiss franc, at least to keep it under control. However, by the middle of June, the SNB abandoned its efforts. This, coupled with the deep financial crisis in the Eurozone, caused the franc to appreciate rapidly.

As far as real estate securities are concerned, price movements remained relatively modest. Hedge funds performed on average better than equity markets, but suffered losses, too. Commodities took a severe battering – on an aggregate basis, losses were just inside the double-digit zone. Industrial metals, which are highly sensitive to changes in the business cycle, suffered badly, with prices falling almost 20%. Precious metals were the main winners in this climate of general uncertainty, with prices rising sharply once again.

Performance of the share value

In the 2nd quarter of 2010, the value of the A-share increased from EUR 157.51 to EUR 158.11, i.e.: by +0.38% in EUR, by -6.90% in CHF, by -7.87% in GBP and by -9.13% in USD.
In the same period the B-share increased from EUR 143.72 to EUR 144.62, i.e.: by +0.62% in EUR, by -6.68% in CHF, by -7.65% in GBP and by -8.91% in USD.
Last 6 months: A-share in EUR +4.02%, in CHF -7.36%, in GBP -4.15%, in USD -11.19%; B-share in EUR +1.64%, in CHF -9.47%, in GBP -6.34%, in USD -13.22%.

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