Info Flash from the President and the Fund Managers
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Review of events and their impact on the economy

The democratic awakening in several countries of the Middle East may well be welcome in political terms and is likely to turn out to be positive economically too in the medium term. The impressive growth rates of a large number of newly emerging countries prove that progress in democracy brings prosperity along with it. Despite these positive changes, the financial markets have reacted nervously, especially in the case of Libya. Equities have been put under pressure, while the Swiss franc has appreciated, and the price of oil has gone up.

The earthquake, the tsunami and the disaster in the Fukushima nuclear power station have devastated part of north-eastern Japan, resulting in a slowing-down in that country's economy in the first quarter of 2011 and bearish forecasts for 2011 as a whole. The experience of developed countries, however, tends to suggest that the damage caused by the earthquakes and the tsunami may stimulate economic growth in the medium term. Japan is expected to display fairly strong growth in 2012.

As far as the Greek crisis is concerned, the end of the tunnel is still not in sight. Greece is the country with the highest level of debt in the euro zone, and its budgetary deficit is very considerably higher than the forecasts made in autumn 2010. In May 2011, that country obtained a rescue plan worth 110 thousand million euros, it is, however, still struggling severely in putting its finances in order, and its level of indebtedness ought to need revising upwards again. Moreover, speculation about the rescheduling of Greece's debt are causing interest-rate premiums to rise and are making it more difficult for that country to achieve a turnaround. The interest rates on Greek bonds have gone up, and the cost of refinancing the public debt has become more expensive.
The support programmes are up and running, but the challenges are enormous – citizens hostile to the measures of budgetary constraint and the privatisations and a government with a sense of duty to do everything it possibly can in tackling this challenge. The economic situation would be more difficult if Greece were to default with its payments and were to leave the euro zone. There would be a risk of the problems spreading to other countries, which would have severe consequences.

Overall economic situation

As far as the economic situation in the USA is concerned, there is as yet nothing to indicate that the liquidity created by the Federal Reserve is feeding the economy to any large extent. It is rather the case that it is still predominantly underpinned by the banks' accounts with the central bank. That is why American monetary policy ought to remain expansive for some time to come and to maintain low interest rates. The current low rate of American growth is only temporary and linked to the impact of the Japanese disaster; the fall in the output of the automotive industry is the consequence of the delay in the supply of parts from Japan, causing a slowing-down in the production cycle. This has led to uncertainty as regards the robustness of the recovery of the American economy in the month gone by and has made the equity market hesitant.

In Europe, despite the crisis in the peripheral countries, economic growth accelerated in the first quarter of 2011. This led the European Central Bank to make the announcement in April that it was increasing its key interest rate by 25 base points to a level of 1.25%. Greece's difficulty in sorting out its public debt and its budget are weakening the euro.

A completely different situation is prevalent on the Asian markets. The solid growth is leading to inflation problems. The Asian central banks (with the exception of Japan) are finding themselves forced to tighten up their monetary policy, and that is damping the performance of Asian equities.

In the short term, the volatility of the financial markets and the price of oil are likely to stay high, and repeated setbacks are to be expected. However, the solid fundamentals of the world economy ought once again to prove strong enough to straighten out the markets in the course of 2011.

Between 31 December 2010 and 30 June 2011, the value of the A share (growth segment in EUR) moved by +0.02% in euros and that of the B share (conservative segment in EUR) by +0.34% in euros. The movement in the value of the C share (growth segment in CHF) between 31 May 2011 and 30 June 2011 was -0.12% in Swiss francs.