C P I C
Management Report
2nd Quarter 2013

During the 2nd quarter, all assets classes recorded losses in Swiss francs. Equities in the developed countries, as well as Swiss government bonds, suffered the smallest losses. German Bunds and corporate bonds suffered slight losses, while Swiss equities performed relatively well. Commodities, equity and bond markets in the newly developing economies produced rather disappointing results. Gold, in particular, took quite a hammering. Markets were affected by a number of factors, in particular the change in US monetary policy and sobering economic developments in the emerging countries. Europe's influence on the markets was secondary.

Interest rates in the stronger economies, which had fallen during the 1st quarter, stabilized during the 2nd, initially at least. The reasons for this were the successful formation of a government in Italy, the success in dealing with the Cyprus crisis, and positive signals from the US economy. May saw a global upward movement in interest rates. This trend was triggered by repeated indications from the US Fed of its intention to bring forward its plans to slow its quantitative easing programme in the light of a respectable improvement in the employment situation. At the same time, the US economy remained quite robust in spite of a restrictive fiscal policy. The rise in yields was due exclusively to changes in real interest rate levels, which have now moved back into positive territory, even if only slightly. The increase in US interest rates not only dragged the funding rates of other industrialised countries higher, they also had a knock-on effect on interest rates in the emerging markets and on the yields of corporate bonds.

Losses on high yielding corporate bonds were relatively limited. Bonds in the emerging markets, however, sustained heavy losses, a situation aggravated by a decline in the value of their currencies. This was attributable to capital outflows on the one hand, and to lower commodity prices on the other. This resulted in a deterioration in the balance of payments of commodity-driven emerging economies, such as South Africa, Chile or Brazil.

The beginning of the quarter saw a weakening of the Japanese yen, driven by expectations of a sharp easing of monetary policy. The Swiss franc initially weakened somewhat against the US dollar and the euro, but strengthened again on the back of equity market corrections. Initially, the euro declined against the dollar, a situation that was reinforced by a lowering of interest rates by the ECB at the beginning of May. The euro regained some of the value it had lost in June, due to a collapse in business confidence in the USA and an improved situation in the euro zone.

Global equity markets saw the positive trends recorded during the quarter continue, and European markets followed suit. The boom was driven by positive developments in the US economy and an ambitious quantitative easing programme by the Bank of Japan. When Ben Bernanke, chairman of the Fed, told Congress in May that there was a possibility that the Fed would soon start reining in its QE, stock exchanges reacted immediately. The stock exchanges of Japan and Switzerland were the hardest hit. The confirmation of the shift in monetary policy in the USA in the middle of June accentuated the downward trend. The Japanese and US stock markets finished the quarter on an upturn, but there were strong losses in emerging markets.

The price of industrial metals and crude oil continued to fall in the 2nd quarter. The factors behind this trend were reduced growth forecasts for emerging markets and high inventory levels. Crude oil prices were also affected by the dramatic rise of shale oil production in the USA. In addition, many investors decided to reduce their gold holdings. Towards the end of the quarter, the rise in interest rates again pushed gold prices lower.

During the last 6 months of the year, the value of the A share has decreased by 0.35% from EUR 174.99 to EUR 174.37, the value of the B share has decreased by 0.11% from EUR 152.78 to EUR 152.61 and the value of the C share has decreased by 1.2% from CHF 106.79 to CHF 105.51.

This report was prepared by René Exenberger, Vontobel Asset Management, Zurich