Letter from the President and Fund Managers

January 2013

2012: a year of respite for the equity markets

Despite many fits and starts, 2012 is finally going to go down in the records as a favourable year for the equity markets, with most of the international indices going up by 10-15%. In combination with the bond markets holding steady, this increase (the strongest since the 2009 recovery following the major crisis) is likely to have allowed the majority of diversified portfolios to post satisfactory (even very satisfactory) performances.

This increase is, however, not really linked to prospects of an improvement in business results (and macro-economic reality is still objectively far from encouraging) but rather to the interventionism of the central banks on both sides of the Atlantic, which has made it possible, in particular, to provide a certain number of answers or stabs at answers to questions that have been haunting the markets for several years. This is especially so since the launch of the massive support plans which made it possible in 2008-2009 for the world economy to escape from an awful depression. The ECB has made it clear how it sees its role as a lender of last resort that could move in to refinance those countries that had slipped “too much” into debt, and the Fed has now spelt out and formalised its monetary policy over time.

US budgetary policy is going to have a decisive impact on market developments in 2013.

It is certainly true that European debt was at the heart of concerns throughout 2012, but now it is US budgetary policy that is grabbing everyone’s attention. In taking the decision not to decide on anything (or on virtually nothing), the United States have now accepted the risk that the spotlight will focus on a certain scantiness of governance, which might end up having the effect of putting doubts into the minds of investors as to whether their model really is “superior”. Having put the (rather improbable) prospect of a budgetary cliff behind us, we are now facing the (very probable) risk of a whole series of mini budgetary walls, a factor provoking greater volatility on the markets. This intense uncertainty as to how long the general environment for economic activity is going to last is very likely to have been one of the crucial factors impeding a renewed upturn in productive investment in the United States which, since 2009, has never been able to take back the lead from household consumption as the factor bringing sustainable stimulation to domestic demand.

In this context, Europe might turn out to be the continent of pleasant surprises. “Fast-track” innovations have strengthened the institutional framework of the economic and monetary union, and the ECB has clearly fixed a safety net which will forestall any new explosion in the interest-rate spreads of the peripheral economies. Stress periods can obviously not be ruled out, especially during an electoral campaign or if the United Kingdom’s yearnings to renegotiate were to trigger an Anglo-German crisis. The major challenge facing the European economies, however, is going to be to find a way out of the recession brought about by the strenuous budgetary efforts agreed on in the course of the past three years.

The Asian countries, and first and foremost China, which were a source of concern in 2012, have now demonstrated their capacity to take appropriate economic measures to cushion the shock of the transition facing them. Asia is therefore likely to contribute more to worldwide growth than it did last year.

Prospects for 2013

All in all, our expectation is for equity markets to tend to move upwards, but with increased volatility (particularly at the beginning of the year), for US assets and the dollar to under-perform, for there to be a slight increase in sovereign rates, especially the US and German ones, for returns globally to remain compressed, for there to be an over-performance of peripheral sovereign credit relative to corporate credit and for there to be a tendency towards devaluation of the yen and the dollar, from which the euro will profit.

In the course of 2012, the value of segment A (“growth”) moved from EUR 161.20 to EUR 174.99, corresponding to an annual variation of 8.55% in EUR (or 7.92% in CHF, 5.41% in GBP and 10.24% in USD). The value of segment B (“conservative”) moved from EUR 147.92 to EUR 152.78, corresponding to an annual performance of 3.29% in EUR (or 2.68% in CHF, 0.29% in GBP and 4.89% in USD). The value of segment C moved from CHF 101.61 to CHF 106.79, corresponding to a performance of 5.10% in CHF (or 5.72% in EUR, 2.65% in GBP and 7.36% in USD).