Letter from the President and the Fund Managers
July 2013

The first three months of 2013 have seen a continuation in the reorientation towards higher-risk investments, even though the trend was reversed temporarily during the period of the Italian election in February and the Cypriot crisis at the end of the quarter. The markets have generally refused to be impressed by the tightening up of US budgetary policy at the beginning of the year (increase in income tax) and in early March (automatic expenditure reductions). More often than not, the US cyclical indicators have turned out to be surprisingly positive. The building of homes and the production of oil from so-called non-conventional sources, in particular, have given off strong signals. The US central bank (FED) has emphasised its intention to keep purchasing government loans and real-estate instruments. The aim of these exceptional measures is to keep interest rates at a low level. The heightened risk-taking propensity has, above all, favoured the international equity markets, while government loans have had to get by with a marginally positive total return on a world scale. Bonds issued in the USA and Switzerland (two dependable countries) have lost a little ground. Gold and the “safe-haven currencies” (Swiss franc and yen) have also slipped somewhat.
From April onwards, the Bank of Japan (BOJ) has been writing a new page of economic history by announcing a spectacular programme of monetary easing, with the aim of ending deflation. The message the BOJ is sending out to Japanese investors is perfectly clear: move out of cash and government instruments and move instead into higher-risk investments, such as equities and real estate. Such a tendency is militating in favour of the international equity markets and will limit the short-term bearish risk resulting from a slowing down in the world economy. In May and June, the very clear announcement by the FED, according to which it might begin to reduce the rate of its purchases of bonds in the relatively near future, has brought about a fall in the price of both equities and bonds. Now, what began as a healthy correction in May has turned into a generalised downwards trend in all categories of assets from mid-June onwards in the light of fears of a credit squeeze in China. Moreover, the social unrest in Brazil and Turkey has contributed to dampening investors’ spirits.

General economic situation

In the USA, the job-creation figures for May were encouraging, but were not sufficiently convincing to incite suspicions of an imminent withdrawal of the FED’s quantitative-easing measures. In Europe, three years after the beginning of the European debt crisis and in the light of the numerous emergency measures, it would seem to be an appropriate point in time for interim stock-taking of the efforts deployed against the crisis faced by the euro area. It emerges from this that the new institutional structure of the Economic and Monetary Union may present grounds for hoping for lasting budgetary stability: with the *European stability mechanism* (ESM – despite having a maximum lending capacity of some EUR 500 billion), granting loans to countries facing financing problems, with the *European budgetary pact* making it compulsory for countries belonging to the euro area to have a debt brake firmly anchored at national level and, finally, with the ECB guarantee (subject to the automatic condition of ESM supervision) with the aim of preventing excessive distortions in the interest rates for government borrowing with the “*OMT programme*” (outright monetary transactions). It must be stressed that the long-term duty to consolidate (a condition of the budgetary pact) is totally absent in the USA and Japan. The restrictive budgetary policy and the reforms have resulted in low inflation rates, making the objectives more difficult to attain. Given that the rate of indebtedness is a burden on the nominal national product, price trends also emerge as being of great importance. The ECB ought to prevent inflation from falling durably below its target of nearly 2%.

Currencies

The possible end to the US monetary programme in the near future and Japan’s highly expansionist monetary and budgetary policy also point towards a new depreciation of the yen sometime in a not-too-distant quarter. The withdrawal of the FED measures is likely to constitute the principal factor for an appreciation of the dollar in the twelve months to come. In the short term, however, there ought still to be opportunities to buy, and, contrary to the current consensus, we are not reckoning on an end to the US programme before the beginning of 2014.
The trends in the value of CPIC shares from 31 December 2012 to 30 June 2013 have been as follows: “segment A” (growth segment in EUR) EUR -0.35%, “segment B” (conservative segment in EUR) EUR -0.11% and “segment C” (growth segment in CHF) CHF -1.2%.