CPIC

Management Report
4th Quarter 2014

Events on the financial markets were shaped by the plunge in crude-oil prices (-40% in Q4, -50% in the 2nd half of the year) in 2014. Natural-gas prices also lost substantial ground. One of the reasons for the major correction was global excess capacity following the boom brought on by hydraulic fracturing (an innovative method to extract oil and gas from shale rocks in the US). Calm soon returned to equity markets, which ended Q4 2014 up by 3.4% (2nd half of the year: +4.3%). Government bonds were also in demand – in particular those at the long end – whose prices increased by an overall 3.1% (2nd half of the year: +4.3%). This was in part the result of falling energy prices triggered by fears of deflation. Statements by (ECB) officials indicated that yields would remain low over the long term, prompting purchases of euro-zone government bonds as a way of heading off deflation.

Tokyo and New York stock exchanges were the world's driving forces. In Japan, further monetary easing in October and the comfortable re-election in December of Prime Minister Shinzo Abe sent the equity market soaring at the end of Q4 (+7.9%). Wall Street advanced by 4.4% thanks to the mostly upbeat quarterly figures reported by US companies. In contrast, European equities yet again sat on the sidelines in Q4, treading sideways. Stock prices of companies across the energy sector witnessed major declines (-13%), whilst consumer goods manufacturers figured among the winners.

Bond yields fall when central banks pump liquidity into the market as part of extraordinary measures – in this case in the form of securities purchases or negative interest rates. This was again in evidence in Q4, when the yields on 10-year German government bonds ("Bunds"), for example, closed the year at a new record low of 0.5%. The Fed discontinued its bond purchases at the end of October 2014. Turbulent energy markets also dragged US high-yield bonds lower. The fact that approximately 20% of issuers in this area come from the US oil industry led to increased risk premia over US government bonds, triggered by speculation that plummeting crude-oil revenues could make it difficult for some companies to repay their debts over the long term.

The US Dollar continued to appreciate against all of the other major currencies in Q4. The Dollar's rise was driven by the end of the US bond-purchasing programme and by expectations of the Fed's first interest-rate hike in the course of 2015. The Yen proved to be one of the losers, declining sharply in the wake of the further easing of the country's monetary policy. The Euro held its own despite expectations of stepped-up liquidity injections by the ECB. The Swiss franc gained ground against the euro, which prompted the Swiss National Bank to introduce negative interest rates to avert the risk of the currency falling below the critical 1.20 threshold to the euro.

We continue to see the United States in the role of the global growth driver. Solid wage growth and the lower oil price are likely to benefit US consumers. The first positive signals have emerged in the euro zone following the latest economic blip. Improved leading indicators suggest the economy, which is set to benefit from the weak euro and low interest rates, has stabilised.

During the last 3 months of the year 2014 :

the value of the A share increased by 1.61% from EUR 193.70 to EUR 196.82;

the value of the B share did not change (EUR 154.70) and

the value of the C share increased by 1.02% from CHF 111.45 to CHF 112.59.

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