Info Flash from the Chair and the Fund Managers
January 2015

2014 – a year played out in two acts

The year gone by can be readily divided into two distinct episodes. The first half-year was marked by surprising composure, with all asset classes advancing in unison, driven notably by the sturdiness of the US economy but also by developments in Europe, where the investors seemed to take favourably to the arrival of Matteo Renzi in Italy and Manuel Valls in France, in anticipation of an acceleration of reforms.

Whereas nothing had clouded the upward movement of the markets during the first six months, the second half-year turned out to be more jittery and to display warning signs of potential risks. The geopolitical tensions became increasingly threatening (Ukraine, Middle East, Greece, Ebola virus disease, and so on) and the macroeconomic divergences between the United States of America and the rest of the world grew more and more manifest from the summer onwards. While the Fed was announcing the end of quantitative easing in October and was promising to tighten up its monetary policy in 2015, the European Central Bank, by contrast, was starting to turn to unconventional measures and to introduce negative interest rates. At the same time, the Bank of Japan was speeding up its quantitative programme.

Highest dollar exchange rate since 2008 and cheapest oil since 2009

The dollar finished the year 10-20% up against the reference currencies and managed to regain the level of 2005, 2008 and 2010, which opened the way for an additional upswing of 15-20%. It was partly linked to the macroeconomic situation and partly to the appreciation of the dollar that energy lost more than 50% of its value in dollars compared with its highest point in the year. This is having a colossal impact for the producing countries, which include a number of emerging markets such as Russia, Venezuela and Brazil.

Popular support for bonds against a background of greater volatility in equities

These notable upheavals caused peaks of volatility on the equity markets and, despite turning summersaults in October and at the beginning of December, they managed to end the year very close to their highest values in the USA, Japan and Switzerland. The countries depending on raw materials (Australia, Russia, Brazil, Norway, etc.) did not benefit from this movement. The volatility index of US shares (VIX) once again hit the threshold of 30% (for the first time since 2011) and seems set to stay above its “comfort zone”, which is considered to be below 15%

Benefiting from a favourable environment (low rate of growth worldwide and low inflation), bond issues were clearly the best performers throughout the year and were surely also the big surprise compared with the forecasts at the beginning of 2014. The Swiss ten-year rate is now below the threshold of 0.30% and the German equivalent is close to 0.50%, while the US rate is only just above 2%, despite that country having a nominal growth rate close to 5%.

2015: Growth prospects rather encouraging

The first point to make is that US growth seems to be firmly rooted and that not even the tightening up of monetary policy envisaged for 2015 is likely to shake the robustness of the US economy. Moreover, Europe, which, to be quite frank, let us down in 2014, might well perform more favourably as regards growth in 2015, benefiting from at least three factors in its favour: the low value of the euro, the fall in the prices of oil products and quantitative easing by the ECB, which ought to favour financial assets and lending to businesses. Stronger growth (in the range of 1% to 1.5%) might thus see the light of day.

Turning to investments, we think the environment will remain favourable for equities, especially in Europe and Japan. Moreover, although we are not anticipating that European prices will go up in the short term, the current low level of bonds makes them rather unattractive. In Europe, corporate bonds remain an interesting alternative to sovereign debt, which seems to us to be less the case in the United States. Finally, with no clear-cut signs showing on the commodity markets, we remain hesitant as regards the sort-term prospects for this asset class.

Taking 2014 as a whole, the value of a share in segment A (“growth”) moved from EUR 179.76 to EUR 196.82, which amounts to an annual change of 9.49% in EUR (or 7.44% in CHF, 2.10% in GBP and -3.86% in USD). The value of segment B (“conservative”) moved from EUR 153.20 to EUR 154.70, which is the equivalent of an annual performance of 0.98% in EUR (or -0.91% in CHF, -5.84% in GBP and -11.33% in USD). The value of segment C moved from CHF 106.39 to CHF 112.59, being the equivalent of a change of 5.83% in CHF (or 7.84% in EUR, 0.57% in GBP and -5.30% in USD).