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Management Report
4th Quarter 2016

Financial markets celebrated a spectacular end to the year after a calm 3rd quarter. The focus was on the US elections, from which Donald Trump emerged surprisingly victorious. In addition, the US and European central banks decided in December to relax their monetary policy. Another surprise came from the OPEC countries at the end of November as they agreed to cut oil production.

The surge in US government bond yields was at the centre of attention in the 4th quarter. Shortly after the Brexit, precisely on July 8th, the yield on 10-year US Treasuries was at an annual low of just under 1.4%, only to close the year at 2.4% and thus above its level at the start of the year. The reasons for this were stronger economic indicators and the expectation of rising inflation. This reflationary environment moved even more firmly into the spotlight in the wake of Donald Trump's victory on November 9th, as the Republicans had been promising generous economic stimulus packages in the form of tax breaks and infrastructure projects. Rising interest rates, however, also caused major changes in other asset classes: by the end of the year, the gold price had undergone a correction to USD 1,157 per fine ounce, the greenback had appreciated and equities had entered a major sector rotation – out of defensive and into cyclical stocks. Equities in general received a boost from robust economic data, however, advancing by 4.4% in local currency (+10% in the second half of the year) in the last quarter of the year.

Another crucial decision affecting the financial markets was taken in Vienna on November 30th, when the oil-producing members of OPEC agreed to reduce production for the first time since 2008. This decision had an even greater impact when non-OPEC countries – first and foremost Russia – also signalled their readiness to join in the output cuts. The decision prompted a rise in crude oil prices to more than 55 USD per barrel by the end of the year, which was a new all-year high.

The top of the equity performance table was occupied unusually by financial companies in the last quarter. Banks and insurers (+18.3%) were the main beneficiaries of rising interest rates and the sector rotation. Defensive stocks and utilities, in contrast, suffered from the improved economic outlook. Energy stocks, for their part, traded more firmly in the wake of the OPEC decision and rising crude oil prices. From a regional perspective, Japanese equities benefited the most, mainly due to a weaker domestic currency.

In light of rising US interest rates, bond markets in the industrialised countries came under pressure, most notably in the US itself. Fed Chairwoman Janet Yellen remained committed to her intention of hiking interest rates for the first time in 2016 on December 14th which confirmed the bleak prospects for US bonds. But European bonds also lost ground. Improved economic signals and the ECB's decision to start slightly scaling back its bond purchasing programme in summer 2017 also provided a headwind. Japanese bonds put in the best performance, with the yields on bonds with 10-year maturities fluctuating around zero as a consequence of the Japanese central bank policy of keeping the yield curve at a low level through targeted bond purchases.

While corporate bonds, despite rising interest rates, performed nicely in an environment with improved economic prospects, emerging market bonds experienced losses in the 4th quarter – particularly in the days following the US presidential election. Not only rising US interest rates and a stronger USD, but also potential trade restrictions under the new US government weighed on this bond category.

Yield spreads between the industrialised nations were the main drivers of the world's most important currencies in the 4th quarter. The USD was the main beneficiary, as US interest rates rose the most. At the same time, the Japanese yen slumped as Japanese interest rates rose less than elsewhere. Emerging market currencies lost considerable ground after Trump's victory, especially those countries beset by their own internal political problems, such as Turkey.

Since the beginning of 2016:

the value of the A share increased by 4.62 % from EUR 204.57 to EUR 214.02,

the value of the B share increased by 1.05% from EUR 155.73 to EUR 157.36 and

the value of the C share increased by 2.26% from CHF 110.47 to CHF 112.97.

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