Info Flash from the Chairman and Fund Managers
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Difficult start for high-risk investments:
Those few words sum up what has been happening on the financial markets in the opening months of 2016. The relatively modest slump in global equities does not reflect the panic sales which punctuated the first quarter. On the other hand, bond returns, viewed in worldwide terms, experienced a positive trend.

There are several reasons that explain the losses made on the equity markets: fears of a slowing-down in the rate of world economic growth (notably in China and the USA) and commodity prices, in particular those of oil, which once again came in for strong pressure. At the same time, we have witnessed a heightening of the lending risks in the emerging countries. Faced with the cyclical limpness, the principal central banks, most of whom have injected new liquidity onto the markets, have been shown up to be increasingly impotent. What has been happening in Europe is disconcerting, with the political problems in Portugal and Spain coming on top of the refugee crisis and “Brexit”.

Oil and central banks with crucial roles:
Starting on 11 February, the equity markets began to pick up, firstly thanks to the recovery in the price of oil (USD 50 a barrel at the end of the first six months) and industrial metals. The effect of that was to reduce the risk of defaulting amongst the companies and emerging countries that produce them. Next, came an improvement in the USA’s short-term economic data, notably in the manufacturing sector. Finally, the ECB surprised the markets in March by launching new stimulating measures, taking the interests of the commercial banks into consideration. On top of that, the FED announced that it was not going to get tougher in its monetary policy after increasing its key interest rate in December 2015.

On the equity markets it was above all the financial equities that felt the effects of the turbulences during the first six months. There were, however, also several winners in the so-called “defensive” sectors (with the exception of pharmaceuticals) and the energy sector.

Bonds:
In this same context, bond prices in the industrialised countries started 2016 by gaining considerable ground, but returns on them fell into a marked decline throughout the entire first half of the year. Starting mid-February, the recovery of the energy sector led to significant price increases, particularly in high-yield US bonds and emerging-country bonds. In parallel, the prices of government loans in the so-called “peripheral” European countries came under pressure and thus generated higher returns.

“Brexit” and prices:
One subject eclipsed all the others in the second quarter and especially in June: the "yes" outcome to the “Brexit” vote.
In Europe, Japan and the USA, the central banks had refrained from adopting new anticipatory measures ahead of the British decision. Up until D Day itself, the markets seemed convinced that the British would come down in favour of remaining in the EU. On the first day of trading following the referendum, the equities markets, especially in the euro zone and the UK, fell sharply, while investors sought refuge in investments like gold or German, Swiss and American government bonds. It was the first time ever that the yield on ten-year German government bonds fell below zero. An even stronger movement affected Swiss government bonds. The reasons for this include

fears of short-term economic trends and the declining rate of inflation and also the ECB's large-scale bond-purchasing programme.
Higher-risk bonds as well as high-yield instruments and emerging-country bonds also benefited from the decline in returns.

Currencies:
On the currency front, sterling was amongst the losers on account of "Brexit". The US dollar also weakened as a reaction to market expectations as regards the possible deferment of forthcoming rate increases by the FED. By contrast, the yen strengthened. The currencies linked to commodities, such as the Canadian dollar and the Norwegian crown, continued to appreciate.

Gold:
Gold soared in a spectacular manner (+16% over the quarter), being much in demand as a "safe haven" and also thanks to the context of negative or very low interest rates.

The immediate future:
After going through such a turbulent period, the market players ought once again to be focusing on growth, monetary policy and company results. When all is said and done, Brexit has not come entirely as a surprise. The EU's reaction, in particular that of the "Berlin-Paris axis", will give us some indication as to how the political world might attempt to cope with it.