CPIC

Management Report
2nd Quarter 2017

There was a high level of uncertainty at the start of the 2nd quarter in the run-up to the French presidential elections. Investors were unnerved by the possibility of a victory by the anti-European right-wing populist leader Marine Le Pen. This impacted Italian sovereign bonds especially, which tend to come under pressure in stress situations. The situation became less tense after the first round of voting on 23 April, and especially after the run-off second vote, when the pro-Europe candidate Emmanuel Macron won a decisive victory.

In the UK, on the other hand, the situation started to look more uncertain for Prime Minister Theresa May. Her plan to strengthen her position by calling an early election badly backfired. The loss of her party's absolute majority weakens the UK government's position in its Brexit negotiations with the European Union.

The current outlook for the global economy is still quite rosy. Although some leading US indicators in particular were disappointing, they signal a return to "more realistic" levels after climbing to dizzying heights in the wake of Donald Trump's election as US president. For many pundits, a much more worrying trend was the fall in US core inflation. The U.S. Federal Reserve proceeded with its cycle of interest-rate hikes, raising the base rate by another 25 basis points in June. Nevertheless, global bond markets stood up well and posted a gain of 0.6% in local-currency terms (+0.5% in the 1st half). Global equity markets also continued their bull run, with a performance of 2% in local currency (+8.6% in the first half).

Emerging markets seem to have overcome the latest crisis. Asian equities had a particularly strong run over the past month, especially technology and consumer stocks. These sectors were also some of the best performers in industrialised countries, just trailing healthcare stocks. By contrast, energy stocks retreated around 10% due to falling oil prices – a blemish on an otherwise green trading screen.

Inflation expectations dipped sharply in the USA and longer-term yields dropped, even though the Fed raised the base rate again. There are now concerns that the tightening of US monetary policy could bring to an end America's 8-year economic growth cycle. In Europe, interest rates continued to move sideways, as they did in the 1st quarter. The market players are waiting for a signal from Mario Draghi, President of the European Central Bank (ECB), that monetary policy will be tightened. The easing of political tensions prompted a sharp drop in the yields in peripheral euro-zone economies, i.e. the potentially vulnerable southern European countries. In addition, the progress in dealing with the problem of the decrepit Italian and Spanish banks helped to improve sentiment.

The environment for corporate bonds was favourable in both Europe and the USA, even for the debt paper of issuers with poor credit ratings. Emerging-market bonds also continued to benefit from positive growth prospects and steadily gained ground over the course of the quarter.

Emmanuel Macron campaigned on a pro-European platform boosting the single European currency. On the losing side was the Japanese yen, which is considered to be a safe haven among currencies. The USD suffered from disappointing US real-estate data and the delay in implementing Donald Trump's pro-business election agenda. The emerging economies were generally solid, despite falling commodity prices.

In the commodities segment, the dominant trend was the fall in the oil price. For the first time this year, the price of a barrel of Brent crude dropped back below the 50 USD mark. This was partly in response to the very slow depletion of abundant oil stocks, but was also due to the prospect of an unfavourable supply/demand situation in 2018. By contrast, the gold price moved more or less sideways over the entire quarter.

Since the beginning of 2017:

the value of the A share increased by 2.58 % from EUR 214.02 to EUR 219.55,

the value of the B share decreased by -0.24% from EUR 157.36 to EUR 156.98,

the value of the C share increased by 2.30% from EUR 112.97 to EUR 115.57.

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