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Management Report
4th Quarter 2017

Global equity markets were once again in top form during the fourth quarter of 2017, finishing with a gain of 4.9 percent in local currency, and representing an increase of 9.7 percent for the second half of the year. Companies continue to show a solid earnings performance, driven by synchronized and accelerating global economic growth. U.S. corporations in particular received a tailwind from the decision to introduce a comprehensive U.S. tax reform on December 22.

The strong economic data in the fourth quarter spurred the major central banks into action as well. In December, the U.S. Federal Reserve (Fed) completed its third interest-rate hike of the year and began to reduce its inflated balance sheet.. On the other side of the Atlantic, too, the money taps are gradually being closed: the European Central Bank announced a cut in its bond purchase program for 2018 from 60 to 30 billion euros per month. By contrast, the Bank of Japan is not signalling any change in Japan's expansionary monetary policy.

The six-monthly meeting of the Organization of Petroleum Exporting Countries (Opec) took place in Vienna at the end of November. Together with Russia, the oil cartel decided to extend production cuts beyond March 2018. This boosted oil prices, which rose to USD 66 per barrel by the end of the year.

The favourable performance of global stock markets was driven mainly by Japanese and U.S. stocks, with the Dow Jones Industrial Index rising by 10.3 percent and the Nikkei 225 by 11.8 percent. Both indices are strongly cyclical. It is therefore not surprising that cyclical sectors such as commodities, industrial and financial stocks in particular were able to gain the most value. By contrast, defensive stocks, such as those of utilities, posted losses over the quarter.

Global bond market performance remained positive in the fourth quarter with a 0.5 percent gain in local currency (0.8 percent in the second half of the year). This is surprising, given the less expansive monetary policy of the global central banks and the strong global economic signals. One reason for this is that inflation has still not really picked up momentum.

The strongest performers in the bond segment were government bonds in the European periphery. Bonds issued by emerging-market entities also closed the quarter up. Corporate bonds trended the same as sovereign bonds.

The Swiss franc continued to depreciate in the fourth quarter, losing over two percent against the euro once again. The U.S. dollar only started to firm a little against the euro in October. Towards the end of the year, however, the euro picked up again and closed at 1.20 against the U.S. dollar. Pound sterling also gained in value, benefiting from an interest-rate hike by the Bank of England and from progress in the Brexit negotiations. Emerging-market currencies showed a mixed picture.

The strong economic signals are also generating higher demand for raw materials. This applies in particular to cyclical materials and industrial metals. The supply side also provided support, as various production sites of metal producers were temporarily closed for political reasons, particularly in China. The aim of the Chinese government is to reduce air pollution and close illegal businesses.

The value of the A share increased by 4.84 % from EUR 214.02 to EUR 224.38,

The value of the B share decreased by -0.16% from EUR 157.36 to EUR 157.11.

The value of the C share increased by 6.49% from CHF 112.97 to CHF 120.30.

This report was prepared by René Exenberger, Vontobel Asset Management, Zurich