Letter from the President and the Fund Managers
July 2018

The stock market year got off to a flying start with the US equity index rising more than 5% in January. The euphoria was short-lived, however. Surprisingly high inflation results from the United States led to a considerable fall in the price of long-term sovereign bonds, causing equity markets there to react with sharp drops at the start of February. After a brief period of calm in March, the escalating trade war between the United States and China exerted pressure on stock prices and sovereign bond yields once again. A slight decline in the leading indicators in China and Europe, which show the trend for future economic developments, did not help. As of April, the fluctuations on the equity and bond markets began to ease off in the light of the good performance of the US economy. At the same time, the rise in US rates was interpreted as a threat to risky investments in industrialised countries. In May and June, the results of the Italian elections and the ousting of Mariano Rajoy in Spain destabilised the markets and put pressure on the euro. In June, everyone was once again preoccupied with the fear of a trade war. Thanks to a robust April, however, the global equity markets ultimately recorded an increase of 1.6% in local currency for the first half. Sovereign bond prices, by contrast, fell slightly worldwide during the first six months (-0.1% in local currency).
The favourable development of the global equity markets during the first half was due first and foremost to the good performance of Wall Street and, in particular, the US technology stocks. Facebook, Amazon, Netflix and Google – known as the "FANG" group in stock market jargon – excelled with a six-month gain averaging in excess of 40%. The energy sector, which benefited from the sharp rise in oil prices during the first half, fared even better. Emerging-market equities, by contrast, fell 2.7% due to fears that the trade war and strengthening dollar would impair the prospects for these countries.
The bond markets went up and down over the first half. Emerging-market bonds have also been struggling with losses – due, on the one hand, to external factors such as the strengthening of the US dollar and, on the other hand, to internal problems, such as those experienced by Turkey. Corporate bonds also recorded a more or less good performance.

The weakness of the euro also had a negative impact on other European currencies during the first half of the year. The idea of reintroducing the lira which is increasingly under discussion in Italy has had a particularly devastating effect. And Mario Draghi, President of the European Central Bank, has explained that an increase in the key interest rates can hardly be expected before summer 2019. Although the Swiss franc rose during the Italian government crisis, it lost 1.9% against the US dollar in the first half. The currencies of the emerging countries experienced significant losses, especially the Brazilian real and the Turkish lira.

As far as the price of oil is concerned, the political events had a positive impact, with black gold benefitting from American sanctions against Iran, a major producer of oil. The upward trend has continued, even though the Organization of the Petroleum Exporting Countries (OPEC), together with Russia, has announced measures to steadily increase production by the end of the year.