CPIC

# Management Report
# 2nd Quarter 2018

Initially there was little evidence in the second quarter of the turbulence that gripped markets in the first three months of 2018. From April onwards, the volatility of both equity and bond markets continuously declined. Given the strong economic data coming out of the United States and the expected tightening of US monetary policy, yields on US Treasuries rose above 3% and the USD appreciated significantly. This in turn fuelled concerns that certain emerging-market countries could have difficulties servicing their outstanding USD bonds. The mood was also a little more subdued in other market segments: higher US interest rates, for example, were seen as a threat to riskier assets in industrialized countries. Despite this, attention should switch to other themes before long.

In May, Italy's new coalition between the populist and eurosceptic parties "Lega Nord" and "Movimento 5 Stelle" unsettled financial markets and led to a significant widening of credit spreads with German Bunds. The resignation of Spain's long-serving Prime Minister Mariano Rajoy also contributed to the tense political situation in the euro zone, eroding the value of the single currency. Thanks to a strong April, however, global equity markets remained robust and posted a gain of 2.9% in local currency (+1.6% in the first half). Sovereign bond prices, on the other hand, softened a little worldwide during the second quarter (-0.2% in local currency, -0.1% in the first half).

The strong performance of global equity markets during the second quarter was mainly due to the healthy state of Wall Street, and especially U.S. technology stocks. Facebook, Amazon, Netflix and Google – known in the jargon as "FANG" stocks – posted a stellar gain of more than 20% over the second quarter (over 40% on average in the first half). The energy sector was even more impressive, benefiting from a steep rise in oil prices over the course of the quarter. By contrast, emerging-market shares dipped around 5%, mainly due to fears that global trade disputes and the stronger USD could have a negative impact on the prospects for emerging economies.

Bond markets have had a bumpy ride over the past quarter. To start with, the solid pace of global economic growth and slightly higher inflation rates pushed up yields. In May and June, as demand for sovereign bonds picked up in response to political uncertainties, yields eased back again. In addition, the yield curve flattened in most global markets. Emerging-market bonds also had to battle with losses, partly because of external factors such as the stronger USD and partly due to problems of their own making, as was the case in Turkey. Corporate bonds held up relatively well.

The weaker Euro in the second quarter also dragged down other European currencies. One particularly negative factor was the renewed talk in Italy about the possible reintroduction of the Lira. On top of that, the President of the European Central Bank, Mario Draghi, said that any increase in benchmark interest rates is unlikely to come before the summer of 2019. Although the Swiss franc strengthened during the government crisis in Italy, it still lost almost 4% against the USD (-1.9% in the first half). Emerging-market currencies suffered heavy losses, especially the Brazilian Real and the Turkish Lira.

Political events had a positive impact on oil prices: they benefited from U.S. sanctions against Iran, a major oil producer. The upward price trend continued, even though the Organization of Petroleum Exporting Countries (OPEC) together with Russia announced plans for a gradual increase in production up to the end of this year.

We believe the risk of recession in the immediate future is still moderate and we are optimistic that our positive scenario still holds. The world's biggest economy is likely to be relatively unaffected by a further escalation of the trade war, as it is heavily dependent on its own domestic market. In this context we have become more sceptical about the European Union. Additional reasons include the unpredictable government in Italy, the uncertainty created by Brexit and the problem stemming from migrant flows. Moreover, it remains to be seen whether the world's major central banks will succeed in gradually tapering the liquidity that they have been pumping into the economy for years.

Since the beginning of 2018:

the value of the A share decreased by -0.69 % from EUR 224.38 to EUR 222.83,

the value of the B share did not change from EUR 157.11 to EUR 157.11,

the value of the C share decreased by -1.46% from CHF 120.30 to CHF 118.54.

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