Letter from the President and the Fund Mangers
July 2019

Following the disillusionment at the end of last year, the first half of 2019 turned out to be particularly positive for investors. While all, or very nearly all the asset categories registered losses in the course of 2018, they virtually all went on to register profits over the first six months of the new year, with the world equity index, in particular, rising 17% in local currency. In the light of such a pronounced appetite for risk, the 5% increase in global bond markets is surprising. The rise in equity markets came to a halt (-5.6% in local currency) in May, when US president Donald Trump tweeted on 5 May that he was increasing customs duties from 10 to 25% for Chinese imports following the failure of negotiations with Beijing.

This exceptionally strong start to the year and the recovery of both shares and bonds is linked to basic data that highlighted a global economic slowdown, with Europe proving a disappointment through its delivery of no more than moderate economic figures for manufacturing industry, in particular. A number of swords of Damocles hung over the market – the trade war between the United States and the rest of the world, the confusion surrounding Brexit prior to the United Kingdom's planned departure from the European Union and the continued demonstrations against the French government.

This triggered the intervention of the monetary authorities. During the first quarter, the US Federal Reserve thus clearly indicated that it would refrain from any further interest rate hikes for the rest of the year and also announced that it intended to stop reducing its balance sheet. The other major central banks did not hesitate to take measures to stimulate the economy either. China brought down the required reserve ratio for banks once again and the European Central Bank not only put on hold the increase in interest rates planned for autumn 2019 but, in June, also hinted at an even more accommodating monetary policy.

Over the first half of 2019, almost all the stock markets and different sectors posted positive results. Amongst the well-known indexes, the Nasdaq, which is essentially centred on technology-related stocks, stood out in particular. Technological and industrial stocks were the most popular "cyclical stocks", while those of the non-cyclical energy suppliers and consumer goods manufacturers moved up to the front of the defensive sector.

At the start of the year, few people would have bet on bond yields undergoing such a fall. The yield of 10-year American treasury bonds thus closed at just under 2% for the first half. The downturn was even more pronounced in the euro zone and Switzerland. The rate for French government 10-year bonds fell below 0%, while Swiss and German bonds moved even further into negative territory. Demand for corporate bonds did not diminish, irrespective of their quality, while emerging bonds (in both hard and local currencies) were almost as much in demand as government bonds.

The euro succeeded in stabilising itself against the US dollar following its depreciation in the first quarter. The emerging currencies also fared well against the background of the trade war and with forecasts of rate reductions in the United States in the second quarter.

An armed conflict between the United States and Iran runs the risk of driving up oil and gold prices. The price of gold exceeded the USD 1,350 mark and briefly peaked at USD 1,400. The fall in real interest rates in the USA has also benefited this precious metal.