CPIC

Management Report
2nd Quarter 2020

The massive price gains we witnessed in the second quarter seem at odds with the actual state of the economy, which performed poorly judging by dismal readings from leading indicators for manufacturing or consumption, for example. At times, both of these were lower even than during the great 2008 financial crisis. Nonetheless, equity markets that had plummeted in the first quarter reported a quarterly rise of 17.9% at the end of June (in local currency). This means that markets fell by 5.1% in the first half of the year.

Government bonds also posted a good, albeit far less spectacular, performance. They continued their upward trend from the first quarter and picked up by 0.6% in the second quarter (up 5.0% in the first six months in local currency).

As many governments eased their tight restrictions, especially in Europe, the extent of the economic slump caused by Covid-19 gradually became apparent. The gross domestic product in industrialized countries is likely to have shrunk by more than 10% in the second quarter. This caused the labour market to nosedive, at least in countries with less robust government welfare systems, with unemployment in the US rising to 14%. Yet massive stimulus packages from governments and central banks have put an end to the worst scenario. Central banks decided to purchase increasing numbers of government bonds and – in the US – corporate bonds, a move that helped to calm the financial markets.

The stock market also suggests that sentiment has improved: cyclical stocks that were squeezed hard in the first quarter, such as financial or commodity equities, have seen a strong recovery in the past three months. Defensive consumer staples and utilities had the narrowest gains. Once again, technology stocks stole the show, climbing by 30.9% over the quarter. Despite the pandemic, they boomed by a phenomenal 14.1% in the first half of the year.

Yields on ten-year government bonds largely trended sideways in the past quarter. Central banks' bond purchases created downward pressure, whereas governments' debt-financed fiscal programs resulted in upward pressure. At 0.6%, yields on ten-year Treasuries remained close to their low point. Corporate bonds, by contrast, saw more fluctuation. Bonds from US debtors with solid credit ratings – recently on the Fed's Buy list – benefited the most from the financial market euphoria. Nonetheless, European corporate bonds, global high-yield paper and emerging market bonds also ended the quarter on a positive note.

The euro rose against the US dollar from EUR 1.08 to EUR 1.12 on hopes of a joint European recovery fund. Emerging market currencies saw slight gains against the US dollar but were still significantly down on their exchange rates at the start of the year.

The literal low point of the quarter was the price of North American WTI oil crashing into negative territory as demand collapsed and oil tanks filled up to the brim. However, prices recovered to just under +40 US dollars by the end of the quarter thanks to hopes of economic recovery following the exceptional measures to contain Covid-19. Drastic cuts in production by the Organization of the Petroleum Exporting Countries (OPEC) took care of the rest. Low real interest rates caused a steady rise in the price of gold to around USD 1,800 per troy ounce, as low rates reduce the opportunity costs of holding the precious metal.

Since the beginning of 2020:

the value of the A share decreased by -3,16% 248.24 to EUR 240.39

the value of the B share decreased by -0.23% from EUR 159.48 to EUR 159.12

the value of the C share decreased by -4.36% from CHF 124.44 to CHF 119.02.

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