C P I C

Management report
3rd Quarter 2020

Market Review

The world economy continued its slow recovery in the third quarter. Economic indicators, particularly employment, have improved, but the situation remains fragile. The markets rebounded at the beginning of the quarter, but anxiety persists and the month of September took its toll. Fiscal and monetary policies thus remain very accommodating.

Macroeconomic developments

Macroeconomic developments in the third quarter were generally positive. Nearly all major economies continued to recover from the severe recession experienced in the first half of the year due to the shutdown imposed to control the pandemic. In particular, data on employment, consumption, housing and manufacturing activity paved the way for a reassessment of growth forecasts for 2020, with the most pessimistic players also adjusting their forecasts upwards.

However, the persistence of the pandemic is significantly affecting certain sectors of the economy, which are unlikely to reach their full potential before a vaccine is widely available: air transport, hotels and tourism for example.

On the vaccine front, progress is particularly encouraging, with advances much faster than usual, a sign of an extraordinary commitment around the world, involving a wide variety of techniques. For example, a number of candidate vaccines have already entered the final phase of clinical trials (phase 3).

Nevertheless, significant risks remain: in the United States in particular, the number of cases of Covid-19 increased significantly during the quarter. In addition, new outbreaks have appeared, notably in Australia, Japan and Hong Kong, as well as a more recent resurgence of infection and hospitalization in Europe.

The European Union finally reached an agreement on a €750 billion stimulus fund to tackle the coronavirus crisis. This fund, which will be composed of grants and loans targeted at the most affected sectors, will be financed by the issue of a common EU debt. Although the agreement was once again reached after heated debate, this turning point in European policy was recognised as a major development by political representatives as well as investors.

On the monetary policy front, the big news of the quarter was the move by the US Federal Reserve to average inflation targeting, allowing inflation to exceed the historical target of 2% (which is being maintained) for a period of time, to compensate for periods of below-target inflation. The main implication of this decision is that the level of rates is likely to remain low for a long time to come.

Also in the United States, politics continues to take centre stage, and the excitement continues to grow in the run-up to the presidential elections.

Financial market developments

The third quarter was rather positive for the markets. However, U.S. equities experienced a rapid and relatively severe decline in September as risk appetite suddenly declined after a quiet and buoyant summer. As a result, US equities returned nearly 9% for the quarter and more than 5% this year. Asian equities, for their part, achieved a performance of over 10% and are thus the best performing region since the beginning of the year, with a rise of over 5%. British equities fell by 3% and are down 20% since the beginning of the year, reflecting a deep economic and political crisis on the back of the pandemic-related recession, an unfortunate cocktail that investors are struggling to digest! European equities are also lagging behind, with performances of 2% and -7% for the quarter and 2020 respectively.

Sovereign bonds experienced a slight decline in the third quarter caused in particular by the slight rise in US 10-year rates to 0.68%. The 10-year German government bond yield ended the quarter slightly lower at -0.52%.

Commodities posted a positive performance in the third quarter, partly due to the weakness of the US dollar. Energy was the only component to end the quarter in negative territory, posting a slight decline: the price of crude oil fell in September amid concerns about the sustainability of the global growth recovery. Prolonged supply cuts by OPEC (Organisation of Petroleum Exporting Countries) and partner nations also left uncertainty, a situation that is generally poorly perceived by investors.

Outlook

The last quarter of the year could be particularly turbulent. By January we should know the outcome of the US elections, whether an agreement is reached on Brexit and whether the US Congress has adopted new budget stimulus measures. More importantly, there is a good chance that we will have news on a vaccine. In this fragile and uncertain environment, investors will remain vigilant and nervous, which does not necessarily bode well for a sharp decline, but most likely for an increase in volatility that is not always easy to trade, especially at the end of the year when market liquidity decreases.

Over a slightly longer horizon, the most likely scenario remains a return to lower long-term average growth, in a highly indebted world with persistent social fractures. It should also be noted that important structural challenges will come back to the fore once the elections are over and the pandemic is better controlled: geopolitical tensions and in particular the tariff war between China, the United States and Europe. Finally, the return to the forefront of the challenges of climate change could gradually become an engine of growth and performance for investors, through concrete and concerted advances in global policies.

Evolution of share values

Overall, during the third quarter of 2020, all three segments continued their positive rebound and recorded improved performances.

Segment A (in EUR) :

The implementation of the management for the A segment remains well diversified with always, on the one hand, active management (aiming to outperform, with controlled risk, the mandate's benchmark) and, on the other hand, management based on a risk budget (seeking to minimise risk while ensuring a return). This portfolio is logically exposed to short-term fluctuations in the financial markets, both upwards and downwards, but in a contained manner thanks to its diversification. Moreover, CPIC's past experience has shown that holders of Segment A units have benefited from long-term growth in the value of their shares, even after the market downturns of 2002 and 2008.

This portfolio benefited from the rise in the markets during the third quarter and saw its valuation increase from EUR 240.39 to 244.78, representing a performance in EUR of +1.83%. The portfolio remains in negative territory since the beginning of the year with a performance of -1.39% in EUR.

Segment B (in EUR) :

The share value of Segment B, a conservative portfolio in EUR, remained stable during the quarter and thus ensured, as expected, the preservation of pension assets.

Segment B ("conservative") unit value increased from EUR 159.12 to EUR 159.16, representing a performance in EUR of +0.03% over the quarter. Since the beginning of the year, the portfolio is slightly down and shows a performance of -0.20% in EUR.

Segment C (in CHF) :

The share value of Segment C, a growth portfolio in Swiss francs, based on a risk budget management strategy (seeking to minimise risk while ensuring a return), had a fairly similar quarter to the share value of Segment A. It rose from CHF 119.02 to CHF 121.55, representing a performance in CHF of +2.13% over the quarter. The portfolio remains in negative territory since the beginning of the year with a performance of -2.32% in CHF.