Letter from the President and the Fund Managers
January 2022

Geneva, 10 January 2022

2021 in brief
From the ashes of the extraordinary, pandemic-filled year of 2020 arose 2021 – a year that kept the world on its toes. While 2020 was marked by extreme movement in both an upward and downward direction, 2021 was a year in which certainty prevailed: the certainty of renewed growth driven by a constantly increasing public debt, the certainty of a job market returning to normal at a hitherto unseen speed, and certainty in the direction taken by a large number of indexes right from the start of the year – upward for shares and downward for bonds. Global equities experienced an amazing increase of almost 30%. Bonds went down 1%, the biggest fall for the past 20 years. The risks and major uncertainty that marked 2020 gave way to manifest certainty in the form of strong growth, and in its wake, inflation. A situation the like of which we have not seen for decades.

The incredible growth that the world benefited from in 2021 can be more readily illustrated through a number of comparisons. The International Monetary Fund reports that 2021 is set to have seen nominal global growth in excess of 12%, even surpassing the exceptional recovery of 2009 (+11%), and approaching the level of 2007, when global growth attained 13%. And 2021, moreover, was an exceptional year on three counts. First of all, the consumption of goods experienced renewed vigour, with consumption rising 8% in the United States, 3% in Europe and 13% in China – all of these being percentages in excess of the average for the past ten years. Then, inflation made a major comeback, rising by more than 5% in the course of a year – a level not seen since the commodity boom of 2008. This is a global phenomenon, affecting not only the United States and Europe but also the emerging nations. It is likely to be a temporary phenomenon to some extent, reflecting the strength of current demand meeting up against shortages in supply. Part of this inflation, however, would appear to be more persistent than expected, with inflation linked to housing costs undergoing a steady increase, seemingly on a lasting basis. The third decisive element for 2021 is the dispersion on the financial markets, with equities skyrocketing in developed countries and remaining negative in the emerging world, the health sector clearly underperforming the financial sector and, finally, the performance of growth stocks exceeding the performance of value stocks once again. Against a backdrop of strong growth and increasing inflationary pressures, a timid and halting rotation has emerged – a factor we regard as decisive when considering 2022.

2022: OUTLOOK
Investors attempting to predict the forthcoming year are currently faced with two questions, and these are essentially economic questions. First of all, will the extraordinary level of growth that we are currently witnessing continue in 2022? One figure is crucial at this stage: the current level of household and business savings in the United States is still 50% higher than before the pandemic. The fiscal stimulus put in place by the US to counter the macroeconomic effects of the containment measures has not yet had its full impact. While the pandemic is doubtless not over, the world is now much better equipped to deal with it than was the case in the first quarter of 2020. If investment is still at a lower level today, this is because uncertainty remains high. And there is only one remedy for this, namely time. In 2022, the health situation could stabilise still further, with household and business investment acting as a robust driver for growth. The continued growth in company results will then convince the market of the elevated but fair equity valuations, while at the same time pushing up interest rates, since strong growth is accompanied by inflation and, with inflation, by far less cooperative central banks. This now brings us on to the second question facing investors – the sustainability of inflation. The inflation we are seeing today is both unusual in terms of its level and surprising in terms of its persistence. It reflects the confrontation between an ill-prepared supply, on the one hand, and soaring demand, on the other. If this increase in demand were to persist, the supply side would appear to have the advantage of being able to organise its agile forces to satisfy it. Inflation ought then to settle slightly above the target set by the central banks. This means that the “doves” among the central banks ought to surrender to the claws of the “hawks”, and monetary conditions should tighten. While this is bad news for those with a high exposure to the interest-rate world, it constitutes good news for the diversified investor. The outlook for commodities remains positive, as does the outlook for equity allocation with a good geographical distribution, since this will make it possible to benefit from much of the increase in nominal growth.

There are, however, two clouds on the horizon. The first of these is the possibility of an “error” in monetary policy in the form of an excessively rapid withdrawal at the central banks. This was what happened in 2018. And also a return of the pandemic, leading to restrictions on economic activity once again. These two clouds would weigh temporarily on the equity markets. As far as the bond markets are concerned, the short-term tension and risks of a rate increase in 2022 could be beneficial over the medium term, providing new potential for rate cuts and hence for diversity in portfolios in the event of renewed shocks on the equity markets. Diversification thus remains key – diversification of both the risk of inflation and the risk of recession.

Development in the value of CPIC shares

All in all, the three segments recorded a robust performance in 2021.

<u>Segment A (in EUR):</u>

Management of segment A is conducted in a diversified manner with active management, on the one hand (aimed at outperforming the benchmark for the mandate, while controlling the risk), and management based on a risk budget, on the other hand (aimed at controlling risks while still ensuring a return). This portfolio is exposed to short-term fluctuations on the financial markets, going both up and down, but moving in a controlled fashion on account of the active management and strong diversification.

This portfolio has benefited from the upsurge in the markets and, at the end of December 2021, its value had increased from EUR 255.58 to 287.63, representing a performance in EUR of +12.54%.

<u>Segment B (in EUR):</u>

Management of segment B is focused on the preservation of capital, combining money-market investments and a conservative, diversified, risk-based management.

The value of the segment B share has risen from EUR 159.26 to EUR 159.53, representing a performance in EUR of +0.17% at the end of December 2021.

<u>Segment C (in CHF):</u>

Management of segment C is comparable to that of segment A, with similar risks, but in CHF.

The value of the segment C share has risen from CHF 126.94 to CHF 133.66, equivalent to a performance in CHF of 5.29% at the end of December 2021.

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