Letter from the President and the Fund Managers
January 2024

Geneva, 20 February 2024

2023 IN BRIEF

2023 was to be a year characterised by three trends – declining economic growth, worryingly persistent inflation and a hawkish monetary policy causing interest rates to rise steadily throughout the year.

Growth expectations in December 2022 were based on anaemic global real growth of 2.1% with a number of geographical disparities. US growth, expected to be 0.3% for the year as a whole, was to fall victim to the Fed's monetary policy. US inflation was to end the year at 4%, while the Fed raised its rates to 4.75%. We all know that forecasting is a difficult art but, for once, many of the predictions turned out to be correct. This was certainly the case as far as inflation was concerned. At the start of 2024, inflation still remains the investor's travelling companion, in the same way as had been expected at the start of 2023. This also holds true of the high interest rate environment – ten-year rates at the end of 2023 remain well above their 2020 levels on both sides of the Atlantic. It was the growth side that provided the surprise, playing a key role for the markets in 2023.

2023 thus began with rather pessimistic growth expectations, which were reinforced by the regional banking crisis in the US. The realisation that the 2022 and Q1 rate hikes could damage the weakest links in the US banking chain did not bode well for the future. But nothing could have been further from the truth. This banking crisis was contained within twelve days – the shortest banking crisis in economic history – and while many people expected the credit channel to run dry, taking its toll on real growth, nothing of the sort happened. In the end, US growth is likely to be around 2.4% for 2023, some 0.3% above its potential. On the European side, the situation is less good, while also not being bad. Far from the expected contraction (-0.1%), the eurozone saw its GDP grow by 0.5% despite Germany suffering from its unfortunate energy alliances of the past. In China, economists expected growth of some 4.8% but the country ultimately experienced growth of 5.2%. In Switzerland, growth was also revised upwards by around 0.2%. Positive surprises in terms of growth have thus emerged in all the major countries of the world, with these having a significant impact on equity and corporate bond valuations. Two further surprises awaited investors right at the end of 2023. In November, a series of converging signals, including the US inflation report, marked the central banks' victory over inflation. In December, it was then the Federal Reserve's turn to surprise the markets and economists with a reversal in the light of the perceived decline in inflation. Moving from a resolutely hawkish "high for longer" approach to an overtly dovish one, the Fed suddenly became the markets' best friend, and the markets duly celebrated with a surge in performance.

2023 was therefore expected to be another complicated year for the markets and its positivity took the majority of analysts by surprise. Not only did the performance of equities defy expectations, but the credit world was not to be outdone either. Global equities brought their holders a return of more than 24% (in dollars) with value stocks (+12.4%) that underperformed growth stocks (+37.3%). European equities for their part did not lag behind (+23.2%, Eurostoxx), contrary to the case for Swiss equities which posted a return of 7.1%. Credit spreads contracted, narrowing from 4.7% to 4.1% for high-yield bonds (BAML figures), while similar variations were seen in the United States. Combined with the carry for the asset class, corporate credit surprised many investors who had viewed it with suspicion. The bond world thus seized its opportunity, with global indices (aggregates) returning more than 4.7% expressed in euros. In the end, 2023 was an excellent year for the investment world but one that was difficult to appreciate as expectations remained negative throughout the year.

2024: OUTLOOK

Against this backdrop of a strong performance in both equities and corporate bonds, the valuation levels at the start of 2024 could be called into question. While this feeling is not entirely unjustified, it is important to remember that valuation is only one of the factors driving financial markets, alongside economic conditions and market sentiment. Global economic growth ought thus to remain robust in 2024, buoyed particularly by dynamic consumer spending. Inflation has also fallen sharply, especially by comparison to the last three years, although this trend is now set to continue at a reduced pace. Finally, monetary policy which had been weighing on growth since 2022, took a new turn at the end of 2023 and an increasing number of G10 central banks should also follow suit.

The three main fears that justified some form of caution at the start of 2023 have therefore been largely allayed and this caution is probably no longer called for, since positive surprises could continue to emerge in 2024. All the more so, since real interest rates have collapsed while commodity prices remain low, leaving large-cap margins in an excellent position. Disinflation is continuing and the bond world could also continue to generate attractive returns. As a result, the much-derided 50/50 portfolio does not seem to have had its last word and 2024 could see it recoup some of its marked losses of 2022. All of this, of course, assumes that our central bankers are indeed able to deliver their soft landing – a path that remains full of obstacles and the end of which is still not in sight. A “non-soft” landing would thus change the situation considerably in terms of both equities and corporate credit, speeding up the fall in rates. While this is not the central scenario for the year, it does represent the main risk.

DEVELOPMENT IN THE VALUE OF CPIC SHARES

Under these complex but surprisingly positive financial and macro-economic conditions, the portfolios posted positive returns for 2023.

Segment A (in EUR):
Management of segment A is diversified with, on the one hand, active management aimed at outperforming over time with controlled risk and, on the other hand, management based on a risk budget aimed at controlling risk while still ensuring a return.

The value of a segment A share rose from EUR 253.79 on 1 January 2023 to EUR 274.28 on 31 December 2023, representing a performance of +8.1% for 2023.

Segment B (in EUR):
Management of segment B is focused on the preservation of capital, combining money-market investments with conservative, diversified risk-primacy management.

The value of the segment B share increased from EUR 155.34 on 1 January 2023 to EUR 161.60 on 31 December 2023, representing a performance of +4.0% for 2023.

Segment C (in CHF):
The management of segment C is comparable to that of segment A, with similar risks but with the Swiss franc as the reference currency.

The value of the segment C share rose from CHF 113.41 on 1 January 2023 to CHF 118.48 on 31 December 2023, representing a performance of +4.5% for 2023.

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