**Info Flash from the Chair and Fund Managers**
**First Half 2014**

In the first quarter of 2014, the international financial markets were dominated by the effects of the Ukrainian crisis and simultaneously bewildered by doubts about the continuing recovery of the US economy. The Russian intervention sparked off a noticeable increase in the price of gold (6% in Swiss francs) but also served as the springboard for positive returns on the government bonds of the industrialised countries. Further uncertainties were occasioned by the withdrawals of capital from the emerging countries.
In the United States, although the labour market may have disappointed, with no more than a slight increase in the number of jobs created in December, and the morale of industry took a marked downturn in January, it nonetheless appears that there are no further obstacles in the way of cyclical recovery. Furthermore, the haziness surrounding the situation of the state budget seems to have lifted, given that the two big parties have managed to thrash out an agreement on the budget in time and also on raising the debt ceiling. The monetary-policy road map is clear, despite the change that has occurred at the top of the US central bank (i.e. the FED): continuation of the progressive, planned withdrawal from purchasing treasury bonds and other instruments. The credit squeeze has disappeared from the agenda, and the risks of borrowers defaulting are low.
In Europe, the situation is completely the other way round. GDP (gross domestic product) in the euro zone advanced no more than a meagre 0.2% in the first quarter (compared with the preceding quarter). On top of that, production fell in March, and the confidence index slumped a little. Very fortunately, the spending propensity of households increased. That did not suffice to bring inflation (0.7% in April) up to the target level of 2% fixed by the European Central Bank (ECB). That incited its president to bring down the key interest rate and to adopt unconventional measures of monetary policy.

**Currencies**
Tapering (or the progressive withdrawal from purchases of US instruments), which had been expected for a long time and was finally introduced in December, was followed first of all by robust data on the cyclical state of the US economy. This led the US dollar to make gains relative to the vast majority of currencies. At the end of January, however, the erratic weather on the eastern coast of the USA did finally pose problems. The US dollar lost more and more of its value. Janet Yellen, the new president of the FED, nonetheless indicated at her first media conference that an initial increase in rates might occur at or after the end of the first quarter of 2015. This brought about a stabilisation of the US dollar relative to the major currencies.

**Short-term rates (three-month prospects)**
We do not foresee any interventions on interest rates in the three months to come. It does, on the other hand, seem likely to us that the FED will increase rates sometime in the course of the next twelve months, given that the level of unemployment ought to continue to fall. It is very probable that the Bank of England will refrain from increasing its rates over the next twelve months, given the decline in inflation. In June, the ECB acted broadly in line with expectations in announcing monetary easing. By contrast, the FED will stick to its roadmap and will reduce its bond purchases by ten billion US dollars at each meeting.

**Return on ten-year government borrowing (three-month prospects)**
It is our view that in the course of the next three months returns ought to increase by between 10 and 30 base points, and the biggest upturn ought to happen in Germany. In the USA the returns appear to be already accommodating the expected acceleration in growth, whilst in Japan, it is likely that the central bank will maintain its extreme monetary flexibility. In May – and despite the uncertainties associated with the events in the Ukraine – the fluctuation margins have continued to contract. Added to this, the forthcoming elections in several emerging countries are not causing big fluctuations on the exchanges. All of this

shows that, as things stand at present, the categories of investment other than bonds are reacting more to the cyclical economic information than to the geo-political risks.

**Inflation in 2014**

Our forecasts for inflation remain generally unchanged. It is only for the euro zone that we have brought our prediction for 2015 down to 1.4%. Our forecast for Japan is slightly lower than the consensus, because we believe that the Japanese businesses are only partially able to pass on the increase in consumption tax to the consumers. The astonishingly low rate of price increases in March and again in April in combination with the strength of sterling have incited us to reduce our inflationary forecasts for the United Kingdom. If our estimate turns out to be correct, the Bank of England would achieve its 2% inflation objective for the first time since 2005.

**Prospects**

In the United States, oil and gas are sectors displaying a record rate of growth, which ought to continue through to 2019. This is having a far-from-negligible impact on the current account and the value of the US dollar. The business climate is good according to company heads, and wages are destined to keep on going up, bringing in their wake a price increase in the order of 2%. We thus believe that the FED will tighten the screw for the first time in the course of the first half of 2015.

In Europe, returns on ten-year government bonds have gone down and have stood at 1.4% since the end of 2013, a level hardly higher than inflation. German competitiveness is suffering from the situation around the European periphery, which is having the effect of making German bonds lose their attractiveness. The reforms announced in France are doubtlessly going to make it possible to improve the general environmental conditions for the economy, but it is still too early to derive recommendations from this.

In May, we slightly rounded down our forecasts for economic growth in emerging countries like Malaysia, Thailand and Chile. Our forecast for Japan is that growth in 2015 will be higher than in 2014. This includes consideration of the fact that the damping effect of the consumption tax on the economic cycle will have disappeared by then.

We have also revised our forecasts for growth in the United Sates by toning them down as a reaction to the disappointing growth in the first quarter. In the other direction, we have clearly pushed up our forecasts for the United Kingdom not only on account of the astonishing positive British growth in the first quarter but also because the monthly economic results have been very convincing.