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Management Report
2nd Quarter 2015

The second quarter was dominated by two key developments, albeit in different ways: on the one hand, notably improved growth and inflation prospects in developed countries; and, on the other, the worsening Greek debt crisis. Unfortunately, the negative aspects overall outweighed the positive ones from an investor standpoint. For example, German government bond prices fell sharply while the 10-year yield surged from 0.2% in April (beginning of the year: 0.5%) towards 1%. Equity markets did not fare any better. The Greek crisis led to mounting jitters, notably in European stock exchanges, from mid-May onwards. Financial markets were volatility-prone for the entire duration of negotiations regarding a new bailout package for the heavily indebted country. A downward trend took hold towards the end of June, when the Greek government abruptly broke off talks with its creditors and withdrew from the negotiations. In the second quarter, share prices were down 1.3% globally in local currencies (compared with +4.5% in the first half-year) while bonds lost 2.7% in local currencies (-0.6% in the first half-year).

How does the trend look when broken down by individual equity markets? Following the strong gains on euro-zone exchanges at the beginning of the year, the Euro Stoxx 50 skidded 5.8% in euro terms last quarter as a result of the Greek crisis (in the first half-year: +11.0%). The US and Swiss equity markets likewise gave up ground in the period under review. By contrast, the Japanese equity market staged another strong rally, with a gain of 5.4% in yen terms (16.0% in the first half-year).

Given the yield fluctuations in government bonds of "safe haven" countries such as Germany, the higher-coupon bond segment proved to be quite stable. The top performers within this sector were convertible bonds (+2.8% in USD, +2.1% in the first half-year), which like high-yield paper benefited from the robust US economy. Performance in the emerging market segment was mixed: despite the weak local economy, bonds from Brazil and Russia finished with gains thanks to the high coupons whereas a number of other emerging markets posted a lacklustre performance. There was little if any evidence of aversion to "high-risk bonds" in the expectation of a first key-rate hike in the USA.

For the first time since Mario Draghi's "whatever it takes" speech in mid-2012 – in which the ECB president pledged to do anything necessary to preserve the euro – yield spreads between bonds of the "periphery" and those of Germany have widened somewhat more sharply as a result of the Greek crisis. However, the upward move in spreads was held in check thanks to the ECB's ongoing liquidity measures and improved growth prospects in most periphery countries. Nevertheless, this, coupled with rising German yields, led to sizeable losses e.g. on 10-year Italian government bonds (-8.9%in euro terms for the quarter).

The big question in everyone’s minds is how things will turn out with Greece. Regardless of the nature of the (political) solution (if any) is found to the Greek debt crisis, sharper price swings cannot be ruled out. At least the "risk of contagion" to other euro periphery states appears quite unlikely thanks to their more stable political situation and recovering economy. Accordingly, we are inclined to see larger price pull-backs as buying opportunities, not least because the U.S. Federal Reserve's monetary policy will be more important for financial markets in the medium term than developments in Greece.

During the last 6 months of the year the value of

the A share increased by 5.46% from EUR 196.82 to EUR 207.56,

the value of the B share increased by 0.36% from EUR 154.70 to EUR 155.26 and

This report was prepared by René Exenberger, Vontobel Asset Management, Zurich

the C share decreased by 0.88% from CHF 112.59 to CHF 111.60.