Info Flash from the Chairman and Fund Managers
January 2016

2015: A year in two distinct parts

Following the upheavals of the summer, it was only reasonable to anticipate that the last quarter of 2016 would be calm and more propitious for higher-risk assets, which is generally the case for the last three months of the year. Everything was lining up as expected, with an explosive month of October, followed by a definitely quieter November with at least a clear sense of direction... Then along came December and tore the dynamics of the process to smithereens. December 2015 was one of the worst months for more than twenty years, more or less on a par with December 2002, and the end-of-year rally, so much longed for, sadly disappeared into thin air, leaving us with the impression that the whole of 2015 had been marred by disappointment and failures to deliver. Much ado about nothing. The S&P500 finished 2015 as it had begun it, with the entire year sandwiched between 2000 and 2013, apart from the sole possible exception of an excursion that never really went anywhere during the summer. After 2015 had been marked by the continuous fall in oil and the abrupt worsening of some of the commodity-producing emerging countries (Brazil, Russia, Venezuela...), upset by the Greek crisis and then by the uncertainties of Chinese growth, shaken by the divergences in monetary policies and battered by a context of international tensions still very much alive (Ukraine, migrant crisis, terrorist attacks, Syria, …), the problems are still there, and it is certainly worth considering the prospects, risks and opportunities.

Emerging markets: Between risk and opportunity

The emerging markets suffered greatly in 2015, and their growth was again disappointing. It would appear that some of the oil-producing countries are in a precarious and potentially dangerous situation, particularly if commodity prices remain stuck in their downward trend. Brazil, which is to host the Olympic Games this summer, is on the brink of a social explosion following the unveiling of a corrupt, political system inadequate for facing up to the severity of the situation. To a certain extent, the emerging risk could turn systemic, thereby threatening the entire equilibrium of world growth. Despite that, it is worth noting at the same time, however, that equities in the emerging countries are low-priced and that they thus offer genuine potential for appreciation.

Is inflation coming back?

American inflation could start to spread in 2016 on account of wage tensions and a favourable base effect. The fact is that *core* inflation has already risen to 2% despite the weakness of oil and the strength of the dollar. It seems reasonable to think that these deflationary pressures will continue to have an impact at least into 2016. Inflationary anticipations ought, in turn, to move upwards. The Fed might, as a consequence, feel constrained to raise its interest rates earlier than envisaged, with a negative impact on long-term rates. By contrast, nothing like this is likely to affect Europe, which ought to remain in a slightly deflationary environment, without the ECB's monetary policy being called into question.

Stable but unspectacular growth for the developed countries

As a year, 2015 showed the developed countries maintaining a stable and firmly rooted rhythm of growth. The confidence of private households largely made up for the deficiencies in the manufacturing sector. The chances are good that 2016 will fit into the same vein, but, nonetheless, the uncertainty will be greater. In Europe, growth in consumer lending might perhaps have difficulty in compensating for the effect of dwindling prices of oil and the euro, which had had a very positive impact in terms of growth in 2015. That is why the role of the ECB is going to be crucial in accompanying European growth, outpacing cyclical factors. In the United States the progressive increase in short-term rates is likely to slow down any acceleration in growth.

What is the likely impact on equities?

It seems reasonable to expect an upward, but not strong, trend in equity prices and for that to be associated with very considerable volatility. The pattern might well be similar to 2015, when macro-economic volatility was particularly modest, but when the markets were significantly affected by shocks affecting growth, which ought at first sight to have been minor, as well as by the expectations of what of monetary policies were going to do. History could repeat itself in 2016. It would thus be wise to be on the look-out for exaggerated corrections and to avoid any excess of optimism in the more euphoric phases.

Taking 2015 in its entirety, the value of the share in segment A ("growth") moved from EUR 196.82 to EUR 204.57, which is equivalent to an appreciation over the year of 3.94% expressed in euros. The value of the share in segment B ("conservative") moved from EUR 154.70 to EUR 155.73, which corresponds to an annual performance of 0.67% expressed in euros. The value of the share in segment C moved from CHF 112.59 to CHF 110.47, which represents a variation of -1.88% expressed in Swiss francs.