Letter from the President and the Fund Managers
January 2019

A year full of surprises

While 2017 was a very good year for investments, 2018 saw a switch to a climate full of doubts and considerably more volatility.

The start of the year was marked by a continuation of the situation in 2017, with equity markets still on the rise, before this trend was reversed in February by more of a technical occurrence – a surge in volatility that suddenly exploded, driving equity markets down by more than 10% in just a few days. With the benefit of hindsight, February 2018 can now be regarded as a pivotal moment marking the return of instability and doubt to the markets.

2018 will go down in history as a year of extreme statistics and even records. Taking, for example, the number of asset classes that recorded a positive performance over the calendar year (figures in USD), 2017 will remain the best year for investments since 1901, while 2018 has been the worst. Moreover, we have not, since 1969, seen a year in which monetary assets outperformed government bonds, corporate bonds and equities at one and the same time. An unfavourable environment for all investors and hence for diversified portfolios, regardless of their particular asset allocation.

Declining markets

In addition, the monetary normalisation pursued by the Fed was accompanied by a slowdown in the Chinese economy, a correction of oil prices and a return of sovereign risk in Europe (Italy, Brexit). All the markets ended the year in the red. Global equities ended 5.92% down, government bonds lost 0.70%, and corporate bonds fell by 1.13%. Raw materials have also been affected, with a performance of -6.81% including a 24.84% fall for oil.

2019: a more encouraging outlook for growth

Our central scenario is focused on relatively strong global growth and a low probability of recession for the major economies of the developed countries. Navigation promises to be more problematical, however, and we are expecting markets to remain more volatile in general. We have thus opted to describe 2019 as a year in "troubled waters but without a recession". Amongst the key factors to be monitored in 2019, we would like to set out the following:

- United States: we are expecting a normalisation in the relative performance of the US economy, generating an underperformance in US assets and a downward trend in the US dollar under pressure from an end-of-cycle dynamic, and a weakening effect of tax cuts and profit repatriation. The stronger presence of the Democrats in Congress will prevent a continuation of "tax gifts", while the FED ought to adopt a more measured approach.
- Emerging markets: supported by rather favourable fundamentals, the emerging markets could benefit from a return, while tensions between the USA and China ought to be more measured or could even weaken in the near future. As for China, the country ought to continue its efforts to stabilise its economy – most likely swimming against the tide, and we feel that the efforts undertaken could well bring about positive surprises for China's growth.
- Europe – Brexit: in the final instance, a deal is likely to be secured at the last minute, which could boost the appeal of the pound sterling, which is currently largely undervalued – a situation that is still justified by the lack of visibility.

In the course of 2018, the value of Segment A "growth" fell from EUR 224.38 to EUR 216.47, representing an annual change in EUR of -3.53%. The value of Segment B "conservative" went down from EUR 157.11 to EUR 157.00, giving an annual performance in EUR of -0.07%. The value of segment C "growth" fell from CHF 120.30 to CHF 114.45, representing a change in CHF of -4.86%.