Letter from the President and the Fund Managers
January 2020

Geneva, 10 January 2020

The years follow on from each other but follow different patterns
The years on the stock exchange may follow on from one another but they certainly don't follow the same pattern. After an excellent 2017, then a sharp drop in the markets in 2018, the 2019 vintage has now gone down as an exceptional year. The statistics on the number of asset classes that recorded a positive performance over the calendar year (figures in USD) show that 2019 was the best year since 1901, with 100% of asset classes posting a positive performance, after 2018 had been one of the worst years on record.

To sum up, the reason behind this performance is a combination of the turnaround by the central banks – and particularly the US Federal Reserve (Fed) – who have adopted accommodative monetary policies once again, a global economy (and especially the US economy) that has avoided a recession, plus geopolitical risks (trade tensions between China and the United States, Brexit) that have not degenerated to the extent that could have been feared. To take a more detailed look, the global economy is continuing to grow, admittedly at a rate below the historical average, but a long way off the recession that was feared twelve months ago. These fears, fuelled by a tangible slowing down of world trade and corporate investment (Capex), were, however, sufficient to persuade the Fed to change its approach and implement three rate cuts in 2019. With inflation running below the Fed's targets, real rates remain low, creating favourable financing conditions for companies. Following on from the United States, the wave of accommodative monetary policies went on to spread further. Almost 60% of central banks are currently in a phase of monetary easing. The fall in the US dollar during the fourth quarter, which coincided with the Fed's rate cut, also benefitted the emerging markets that had previously suffered from the trade tensions.

The geopolitical risks kept the markets in constant turmoil throughout the year. As far as the trade tensions between the United States and China are concerned, feelings fluctuated between optimism and pessimism before the prospect of a preliminary agreement announced in December calmed the situation somewhat.

2020: OUTLOOK
From a macroeconomic point of view, we anticipate modest growth still (driven by services and consumption), supported by low interest rates and with monetary (and fiscal) policies offering welcome but limited support. We could see the US economy diverging from the rest of the world's economies. US assets run the risk of being affected by the growing uncertainty linked to the presidential elections, while the dollar could suffer due to the continued adoption of an accommodative monetary policy. A configuration of this type could prove beneficial for emerging markets, but a certain number of risk factors will need to be monitored:

- United States: in view of the Fed's apparent preference for stability in its key rates, any unexpected downward or upward movement in inflation could result in the real rates undergoing an increase or reduction respectively. This could push the US economy into recession or, conversely, extend the configuration prevailing in the current cycle by a few more quarters through a more rapid depreciation of the dollar. In both cases, the correlation between risky assets and non-risky assets ought to remain negative and hence, de facto, favourable to diversified portfolios.
- Geopolitics: many uncertainties still remain, and there will be no shortage of new problems arising in 2020, making it possible to predict a return of volatility to the markets: trade wars, the impeachment of President Trump, the presidential elections in the US and the tensions in the Middle East, which are already causing disruption at the start of the year.

In the course of 2019, the value of segment A ("growth") increased from EUR 216.47 to EUR 248.24, representing an annual change in EUR of +14.68%. The value of segment B ("conservative") increased from EUR 157.00 to EUR 159.48, giving an annual performance in EUR of +1.58%. The value of segment C rose from CHF 114.45 to CHF 124.44, representing a change in CHF of +8.73%.

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President of the Foundation Board