Letter from the President and the Fund Managers
January 2025

Geneva, 8 January 2025

2024 IN BRIEF

2024 was a year marked by the exceptional performance of equities, driven upwards by the US market. The performance differential between this latter market and the other markets produced a form of concentration of performance comparable to the one seen in 2023. This weighed on portfolios that were too geographically diversified, a trend observed since the end of the pandemic. This concentration of performance was evident across the board – equities outperformed bonds, US equities outperformed the equities of the rest of the world and fewer than a dozen US equities outperformed the rest of the local market. Apart from this, two further major trends played a role in the performance of the main markets in 2024. These were, firstly, the slowdown that affected the global economy, with the notable exception of the United States – the world slowed down in 2024, but the US was able to maintain robust growth. Secondly, there was the slow but real disinflation that enabled central banks to lower their policy rates in the second half of the year. If we are to attempt to determine what might change in 2025, we need to analyse these three trends (concentration, slowdown and rate cuts) and understand the fundamentals so that we can answer the key question as to which trends will end in 2025 and which will continue for another year?

The mechanics of disinflation are usually as follows: when an inflation shock occurs, central banks raise their short rates so as to push up the long rates. This has two main aims. Firstly, to discourage investment by households and companies and, secondly, to make equities less attractive than bonds, ultimately weighing on consumption. Private investment in the United States rose by only 0.1% in 2023 and 4.3% in 2024, compared with the historical average of 9% from 2005 to 2023. In the euro zone, the effect is even more marked, with investment up by 0.7% in 2023 and contracting by -2.2% in 2024. From this point of view, the major central banks achieved their target. But the story doesn't end there. When it comes to consumption – the second effect – the situation in the USA is very different from the one in the euro zone: US consumption rose by 2.5% in 2023 and 3.7% in 2024, compared with an average of some 2% between 2009 and 2019. In the euro zone, consumption rose by only 0.5% in 2023 and 0.9% in 2024. It is essential to understand this point in order to appreciate why the ECB was finally the first central bank, after the SNB, to cut rates. The US central bank needed more time before making its first cut as US consumer spending struggled to get back on track and continued to fuel inflation.

One of the major differences between the euro zone and the USA is due to the fact that the US Treasury allowed itself to protect the economy by stimulating consumption. As a result, the primary deficit in the USA was -6.3% in 2023 and -6.5% in 2024 – astronomical figures for economic periods not marked by a recession. US consumer spending thus acted as a shield, protecting the economy and limiting the decline in inflation in the country. By comparison, while the situation in Europe was more complicated in terms of both investment and consumption, the primary deficit was “only” 3.6% in 2023 and 3.1% in 2024. It should not be forgotten that, in 2023, 88% of the world's economies saw their growth deteriorate. In 2024, the figure was only 73%. The past two years have been years of global slowdown apart from in the USA. This explains why performances were driven by US assets. In addition to the sectoral attractiveness of US companies, the relative dynamism of this economy was able to attract financial flows.

Market performances are simply the result of this scenario with the US economy playing a dominant role, boosted by the public deficit. World equities gained 17% (MSCI World, in dollars), driven by US equities (S&P500 +23.3%) and so-called growth equities (MSCI World Growth +25%). The performance of other assets was less attractive. Emerging equities went up by a mere 5%, while low-value equities (MSCI World Value) went up by “only” 9%. European equities for their part went up by just under 10%. Finally, the persistent stench of US inflation weighed on bond performance. Inflation eased more slowly in the United States, indicating that growth there was more resilient than expected. US ten-year yields thus rose by 70 basis points. Their German equivalent rose by 52 basis points over the same period, highlighting once again the global influence exerted by US monetary policy. The US dollar benefited from this, gaining just over 7%. Commodities remained stable over the period, with the fall in energy prices offsetting the sharp increase of almost 27% in gold prices.

2025: OUTLOOK

It is easy to understand that one of the reasons for the concentration of performance in 2024 is the exceptional budgetary policy pursued by the US in particular. Everywhere else, the slowdown driven by our central bankers has materialised and weighed on domestic equity markets. Two factors are necessary if this trend is to change. On the one hand, the central banks must continue cutting their policy rates, a process that is already well underway throughout the world. Once these rates have been brought down to a neutral level (around 2%) or below, the world will be in a position to enter a recovery phase. The second factor relates, of course, to global budgetary policy and particularly that of the US Treasury. The US economy needs to slow down before the Fed can loosen its grip on this economy. If the US economy continues to be stimulated by very deep deficits, it would seem difficult to see this slowdown materialising. Without a slowdown, US rates will not fall and the dollar will stay strong, weighing on all asset classes apart from US equities. An initial fiscal consolidation stage is a key condition for the US to experience a slowdown, bringing about a fall in the dollar and interest rates. This stage is essential if we are to see positive and more homogeneous performances, both between equities and bonds and within the different sectors and regions.

There are, of course, potential alternatives to this central scenario: firstly, a scenario in 2025 that involved a repeat of 2023 and 2024 with a strong concentration of performance. For this, it would be sufficient for the US Treasury to continue its budgetary policy. A second alternative scenario would take into account the collateral effects of the measures announced by the Trump administration. Even though many of these measures would seem positive for US growth, and by extension for global growth, the tariff issue could well be the source of a negative growth shock for the entire global economy. These measures are aimed at reshuffling the cards in global trade in favour of the United States. If they were to be the source of temporary inflation in the US, they could also trigger a slowdown in global growth. This was seen in 2018 with the first instalment of these measures, essentially aimed at China. If they were to be applied with no half measures, these tariff barriers could thus switch from being inflationary to recessionary, weighing on the prospects for global profits and, as a result, on the valuation of global equities. If this were to happen, they could play into the hands of bonds, which would take on their diversification role in multi-asset portfolios once again.

DEVELOPMENT IN THE VALUE OF CPIC SHARES

Against this background of complex financial and macro-economic conditions, the portfolios delivered a robust performance in 2024.

<u>Segment A (in EUR):</u>
Management of segment A is diversified with, on the one hand, active management (aimed at outperforming the mandate's benchmark over time, with controlled risk) and, on the other hand, risk budget management (aimed at controlling risk while still ensuring a return). The portfolio is exposed to short-term fluctuations in the financial markets, both upwards and downwards, but in a controlled manner by virtue of active management and strong diversification.

This portfolio has benefited from the rising markets and, at the end of December 2024, its valuation had risen from EUR 274.28 to EUR 293.48, representing a performance in EUR of +7.0%.

<u>Segment B (in EUR):</u>
Management of segment B is focused on the preservation of capital, combining money-market investments with conservative, diversified risk-primacy management. It had fulfilled its capital-preservation role in 2023, by comparison with traditional conservative portfolios.

The value of the segment B share increased from EUR 161.60 to EUR 168.14, representing a performance in EUR of +4.05%.

<u>Segment C (in CHF):</u>
The management of segment C is comparable to that of segment A, with similar risks but managed in Swiss francs. The robust appreciation of the Swiss franc has meant less pronounced gains.

The value of the segment C share rose from CHF 118.48 to EUR 124.35, representing a performance in CHF of +4.95%.

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