

Flexibility, a prerequisite for 2016

2015 started on a promising note: the global growth was supposed to keep improving, driven by the recovery of developed countries. After the last measures of the ECB, the central banks' role should have decreased, benefiting both micro and macroeconomic data. There were no clouds in this scenario: things were supposed to gradually get back to normal. But they didn't: several miscommunications from central banks, mixed with feared investors shook the performances of CPR Invest Defensive, Reactive and Dynamic⁽¹⁾. At this beginning of 2016, Cyrille Geneslay, Balanced fund Manager, gives us his outlooks.

How do you see 2016?

Going from 2015 to 2016 did not erase the doubts the "QE dependent investors" had, since there are still no answers to their major questions. December proved that withdrawal from quantitative easing was made difficult by the addicted markets.

Thus, 2016 is a turning point for the global economy: the risks are there, and they abound! We still believe in the improvement of the global growth, driven by the strength of developed economies,



mainly in the United-States and the euro zone. In this "return to normalcy" context, investors would find confidence and serenity, enabling equity markets to get back on a "sustained increase" path: between 5% in the United States and 10% in the euro zone. Reassured by this turn of events in the economy, the federal reserve would keep increasing its key rates, at an accommodating pace (1.25% at the end of the year).

But in order to stay on a serene path, investors will have to trust the central banks' ability to revamp the economy. If the monetary policies fail, our central scenario will cease to exist. In this worst case scenario, there would be no more diversification assets nor safe-haven. All asset classes would recorelate down, dropping by 10 and 15% for equities over the year.

Moreover, the slowdown in China, due to their economic repositioning, must not turn into a real crisis, impacting both commodities and the rest of the emerging countries. In that case, the fall in key rates would partly compensate the equity markets' slump.

In this context, what is your investment strategy?

In this uncertain and "political actions' dependent" environment, the approach of the CPR Invest's balanced range of compartments is more adapted than ever. Yet, its high geographic flexibility (inclu-

ding all developed countries- from United States to Japan- and emerging countries), allows us to emphasize our convictions.

In that beginning of the year, we favor developed markets' equities in our investments, while keeping optional hedge positions, in order to safeguard ourselves from a sudden markets' shift. Regarding bonds, we think that the biggest potential lies in the euro zone, because of its diversity, and the United-States, because of their stability. German yields remain a hedge not be overlooked.

What is your current exposure?

Our strategy is the same for all compartments, but the exposure of each one varies, in order to match different investors' risk profiles. Our equity exposure is 22% for CPR Invest Defensive (equity exposure can go from 0 to 30%), 45% for CPR Invest Reactive (equity exposure can go from 20% to 80%) and 75% for CPR Invest Dynamic (equity exposure can go from 20% to 80%).

The sensitivity is 1.3 for CPR Invest Defensive, 2.6 for CPR Invest Reactive, and 4 for CPR Invest Dynamic. 2016 is beginning on a volatile and uncertain context: flexibility and reactivity will be necessary, and we intend on being both!

1) Compartments of the Luxembourg SICAV CPR Invest, feeders of the french FCP's CPR Croissance Prudente 0-40, CPR Croissance Réactive, and CPR Croissance Dynamique.

Compte rendu d'un voyage au Japon

Par Jim LEAIVISS, Directeur de la gestion Obligataire, M&G Investments

Lors de ma première visite au Japon dans les années 90, tout était hors de prix et on avait l'impression que les prix y étaient plus élevés que partout ailleurs dans le monde. Cette réalité est à présent tout autre. En effet, si vous tenez compte de l'indice Big Mac de The Economist, le yen japonais est à présent 35% moins onéreux. Depuis 2012, nous avons assisté à une dépréciation du yen japonais de l'ordre de 40% et, sur une base pondérée en fonction des échanges, il est à présent à son niveau le plus bas en 30 ans.



Dès lors, pour tous ceux qui s'attendent à une nouvelle dépréciation du yen, je pense que nous devrions davantage envisager la fin de cette tendance, plutôt que le début. Par ailleurs, je ne m'attends pas à assister à un nouveau fléchissement en glissement annuel. En réalité, Haruhiko Kuroda, le

gouverneur de la Banque du Japon, a indiqué que 125 et demi par rapport au dollar américain était un niveau adéquat pour le yen.

Autre raison pour laquelle les décideurs n'apprécieraient pas une nouvelle dépréciation du yen: les exportations ne représentent que 16% du PIB japonais, ce qui est plutôt faible pour un pays industrialisé.

Par conséquent, tandis qu'un pays exportateur peut considérer qu'il est intéressant d'avoir une devise faible, ce n'est peut-être pas le cas du Japon qui doit faire face au vieillissement de sa population et dont les prix supérieurs à l'importation heurtent la consommation de plein fouet. Dès lors, dans cette mesure, nous assistons peut-être actuellement à la pire dépréciation du yen et il serait sans doute temps de commencer à prendre des positions en yen.

Pleins feux sur les salaires

Nous avons profité de notre séjour au Japon pour rencontrer plusieurs économistes et stratèges et nous avons inévitablement parlé d'Abenomie. L'un des éléments de l'Abenomie sur lesquels a mis l'accent Shinzo Abe, le premier Ministre japonais, est le salaire. Il s'agit d'un phénomène que nous avons constaté dans le monde développé. En effet, l'Allemagne a instauré le salaire minimum, Barack Obama souhaite une hausse des salaires, tout comme David Cameron au Royaume-Uni.

M. Abe a demandé à ce que le salaire minimum soit inévitablement augmenté de 3%. Ce facteur sera essentiel, alors que les négociations salariales auront lieu au printemps de l'année prochaine. Cependant, pour comble de paradoxe, les syndicats ont revu leurs prétentions en termes d'augmentation sala-

riale à la baisse, étant donné qu'ils sont préoccupés par la situation internationale, et plus particulièrement par la croissance économique japonaise.

Lorsque l'on regarde en avant, il paraît évident que les salaires auront un rôle important à jouer pour atteindre l'objectif d'inflation de 2%, mais il reste à voir si les entreprises vont effectivement parvenir à l'augmentation de 3% que demande M. Abe.

L'ascension des robots

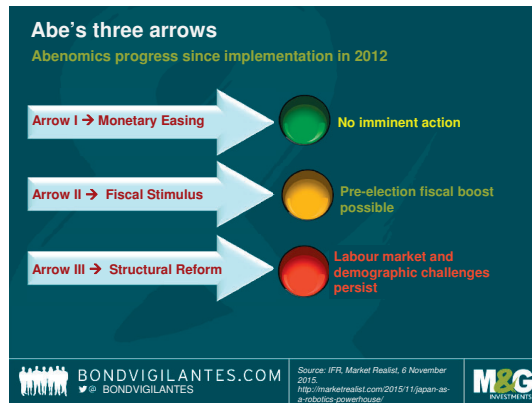
Lorsqu'il s'agit de robots, le Japon présente l'une des plus fortes densités au monde et n'est dépassé que par la Corée. Cette situation pourrait se révéler intéressante à plus long terme, étant donné que l'ascension des robots pourrait potentiellement résoudre en partie certains problèmes du Japon, comme sa démographie et la réduction de la population en âge de travailler.

On pourrait ainsi supposer que l'automatisation contribuerait à mettre les emplois peu qualifiés en péril. Cependant, une récente étude menée par McKinsey montre que seuls 5% des emplois environ seraient intégralement remplacés par des robots. D'ailleurs, ce sont plutôt les emplois hautement qualifiés qui seraient les plus susceptibles d'être concernés par l'automatisation.

Dès lors, si les travailleurs ont été en mesure de consacrer du temps à leurs spécialités, ce phénomène pourrait avoir des répercussions de grande ampleur sur d'autres domaines, comme les salaires, les loisirs et la productivité.

L'Abenomie et ses trois flèches

Nous quittons Tokyo en appréhendant mieux la manière dont l'Abenomie s'est comportée depuis sa mise en œuvre en 2012.



A question of quality

By Dr Bert FLOSSBACH, Flossbach von Storch Invest S.A.

For investors, it is crucial to distinguish actual investor risks from usual price fluctuations. To do this, they must be able to assess the quality and valuation of their assets as precisely as possible.

Modern portfolio theory has made volatility (price fluctuations) the decisive, if not even the sole measure of risk in the past few decades. It is easy to measure and is extremely suitable for quantifying the abstract concept of "risk". Academics therefore love it – but there are two clear disadvantages.

Volatility is pro-cyclical and misleading as a measure of risk.

Firstly: Volatility is pro-cyclical. It is always particularly high when prices have already fallen sharply. Expressed in simple terms: When the prices are "low", the risk is high – when the prices are "high", the risk is low. No smart investor will be able to come to terms with this contradiction. Why should he/she sell something just because it has become cheaper? The answer from the theory: because

increased volatility signals that the investment has become more risky! Why, however, should buying a share at a price of 50 be more risky than at a price of 100 if nothing on this was short and sweet: "That's where they lost me."

Secondly: Volatility is misleading as a measure of risk. An investment is therefore always risky if it leads to a sustained absolute loss or failure to meet the investment objective. A bank deposit above the legal deposit guarantee of 100,000 euros at the wrong bank is not risk-free, even though, by definition, it does not have any volatility. A German Bund with a time to maturity of one year and a yield of negative 0.3 per cent is also not risk-free.

Portfolio theory ironically sees this differently because the loss is "certain". For investors who follow specific investment objectives, the actual fundamental has changed within the company? This logic has never convinced us. Warren Buffett's comment.

1. Volatility > Risk

Anybody investing their assets for the long term should blank out price fluctuations – they usually exaggerate the actual risk. The focus should instead be on the quality of the investment and its valuation.

It is only in this way that investors can gain the necessary conviction not to allow themselves to be infected by the nervousness on the stock exchange. An investor who acquires equities of companies with sustainable earnings prospects, a solid balance sheet and a capable management at a reasonable valuation can calmly wait until the fundamental quality of the equity results in rising prices. Furthermore, he/she will be regularly rewarded with dividend distributions.

The investment horizon plays a decisive role when considering risk. The following applies in principle: volatility is the enemy of the short-term investor and the friend of the long-term investor. There are investments for which the volatility grossly exaggerates the actual economic risks and also investments that are a lot more risky than price fluctuations indicate. However, there are also investments where the volatility fully underestimates the actual risk.

2. Volatility < Risk

Investments without any volatility are not necessarily risk-free. Even bank deposits, as the example of Cyprus showed, can be very risky. Negative yields on German Bunds and negative interest on bank accounts (in Swiss francs, also for large amounts in

euros) have in the meantime become almost normal. Also, investments such as real estate, for which no daily prices are calculated, are therefore known not to be without risk. However, this phenomenon also occurs with equities and bonds whose fluctuations do not sufficiently reflect the economic risk, and punish investors' patience. We are not trying here to name individual cases with the benefit of hindsight but want instead to identify structural, systematic risks that are based on faults of the business model and are not of a cyclical or seasonal nature.

As a prominent example, we pointed to the banking sector in 2007, which due to high business risks and gigantic balance sheet totals with minimal capital adequacy had raised doubts about the solvency of numerous institutions. Even if only a few banks became insolvent, many of the remaining institutions had to increase their capital in the crisis, in some cases significantly. Although this saved the institutions from going bust, the number of outstanding shares increased.

Even if earnings were to one day reach the old record levels, they would need to be divided by what, in the meantime, is a much higher number of shares, which is why prices are cemented to the floor. Patience was a bad adviser in this case.