

AMC PROFESSIONAL FUND – AMC Pro Swiss Franc Bonds

Review

The eurozone debt crisis and its impact on the well-being of Europe's banking industry worked against the corporate bond segment, especially the financials sector (recently 5-year CDS spreads hit a new high at 330 basis points, up from 63bp at their lowest point at the start of 2011). This volatility continued to push yields on 10-year Confederation bonds downwards: they eased by 22 basis points to close the fourth quarter at 0.72% (the 10-year Swiss swap rate was down by 20bp to 1.26%, 10-year US Treasury yields fell by 8bp to 1.92% and 10-year German Bund yields edged down by 1bp to 1.89%). The 2-to-10-year swap curve slid lower by 11bp to 113bp. As for credit-risk instruments, five-year CDSs for the European financial sector, Portugal and Italy reached 276bp (-1bp), 1,088bp (-1bp) and 500bp (+28bp), respectively. As for credit indices, the European iTraxx for 5-year rates ended the quarter at 174 (-27bp) and its US counterpart closed at 122 (-20bp).

Against this backdrop, our conservative positioning on duration and credit risk shaved some 19bp off the performance in relative terms. The sub-fund's return for the whole year stood at +3.48% (benchmark: +4.83%). The sub-fund's duration (4.84 years) is some 0.71 of a year shorter than that on the SBI Total AAA-BBB benchmark index.

Outlook

Inflation is not going to be a concern 2012 whereas the risks of tumbling prices will be a headache. This prospect will have reassured the SNB about the wisdom of defending its ceiling level for the Swiss franc against the euro of CHF1.20 and keeping it there until the autumn. The SNB will continue to employ non-conventional monetary measures as well to counter deflationary pressures, encourage businesses and households to spend and invest, and give investors reasons to quit the safety of the franc.

As aversion to risks remains quite high, Confederation bonds have continued to be viewed as safe havens. This flight to security, compounded by evidence of economies slowing down, pushed bond yields down to year lows, which means they are not particularly attractive at all except as safe havens. If risk premiums were to begin to deflate, a rise of around 30 basis points or so in bond yields would penalise the segment of risk-free quality bonds and foster some narrowing of credit spreads. It is hard, however, to see yields on 10-year Confederation bonds moving permanently back above the 1.2%-1.3%-threshold in a climate of such anaemic economic growth.

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