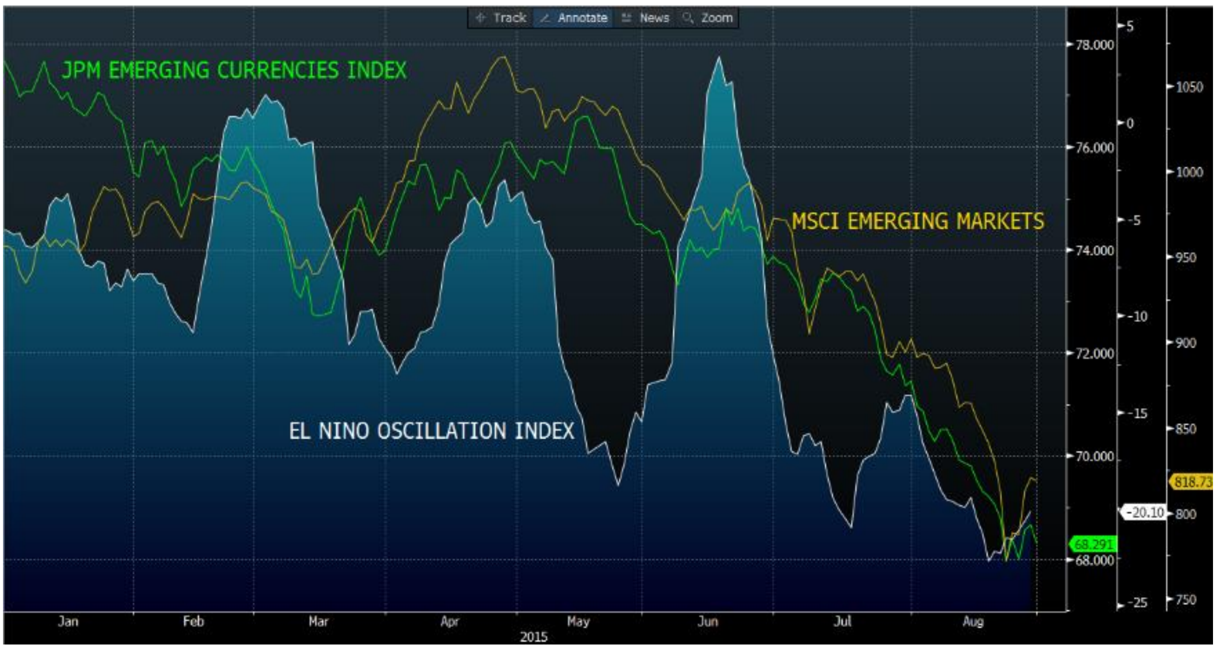
CHART OF THE MONTH

1997 & 2015 – EMERGING MARKETS CRISIS AND EL NIÑO?



Source: 1 Bloomberg

1997 & 2015 – EMERGING MARKETS CRISIS AND EL NIÑO?

"Oh, a storm is threatening
My very life today
If I don't get some shelter
Yeah I'm gonna fade away…".
"Gimme Shelter" - The Rolling Stones, 1969

2015 is the year of the strongest El Niño phenomenon since 1997. El Niño is an oceanic anomaly affecting the Eastern and Western Pacific surface water temperatures (warmer East, colder West) and triggering serious climatic hazards in Asia and the Americas, like storms, floods and droughts, heat and cold waves. El Niño also affects, but to a lesser extent, the whole planet's climate.

2015 is also the year of a global EM crisis, at least on financial markets. Investors in EM equities had to cope with intense volatility, but a downward path in general, especially since April, as the MSCI EM has lost more than 27% peak to trough. On the debt side, EM were also difficult, especially in local currencies. The JPM Emerging Currencies Index litterally tumbled during the last few years (-38% since mid 2011), and has lost more than 10% in only 3 months this year since May.In 1997, Emerging Markets, especially in Asia, had also to face very difficult financial conditions, as everybody can recall.

Developed markets equities were also under pressure this year, even though Europe and Japan still show slightly positive returns, but since April the DAX tumbled 20%, the Nikkei 13% and the SP500 close to 10%. The downturn has been fuelled this summer by the PBoC's decision to devaluate the Chinese currency by 3%... Not a huge move in itself, but with dire consequences.

What happens if China decides to pursue a gradual devaluation of the Renminbi and other EM currencies follow ? It is hardly imaginable that markets stay calm should this occur.

So yes, a storm is threatening, but it has not struck yet, and it might fade away. Should it decide to strike, where can investors find some shelter?

Cash is an obvious candidate, but it just diminishes the risk of a portfolio and does not act as a perfoming tool when everything else suffers.

The dollar is another obvious shelter in troubled times, like the Swiss Franc. But holding cash in Swiss Francs is costly because of negative interest rates, and cash in USD yields almost nothing. When it comes to the CHF it seems that its performance is more related to European troubles than any other thing, and for the dollar it would only help portfolios that are not dollar-based.

We would advocate for holding some 5-year US Treasury bills, which as of today yield 1.50%, not a bargain yet, but this part of the US yield curve is very steep and US Treasuries tend to perform well when a risk-off environment arises. On top of that, this remains one of the most liquid assets in the world.

And if the storm finally completely fades away, capital losses would still be manageable, and they would certainly be largely compensated by good performances from other assets in a diversified portfolio.