



Our Monthly Investment Review : May 2022



Author(s)
Kevin Thozet

Published
June 16, 2022

Leng
2

Concerns have shifted from inflation to growth

Asset prices picked up in May as investors looked optimistically at the more downbeat economic readings (especially in the US).

Stock markets ended the month more than 5% up from their monthly low, and the downwards pressure on bond prices eased. The yield on 10-year US Treasuries fell from 3.2% to 2.8%, and the credit risk premium slid from 4.9% to 4.2%.

The narrative among investors has indeed shifted in light of the many economic indicators – PMI readings, real-estate market data, and regional data, for example – pointing to a sharper-than-expected slowdown.

Until now, investors largely believed that central banks, and above all the US Federal Reserve, were concerned more about the brisk pace of inflation than the worsening economic outlook. But in view of May's economic readings, they seem to be expecting the Fed to shift gears and carry out fewer rate hikes, as part of a less-aggressive approach to policy normalisation.

The spectre of stagflation

We believe this more optimistic stance – due in large part to overly pessimistic sentiment previously – should be taken with a grain of salt, and are therefore treading carefully.

The prices of some goods are still marching upwards, and retailers are having a hard time passing on the full increase in their own costs to consumers. At the same time, consumers are buying less. The nearly 20% tumble in the stock price of Walmart – the bastion of US mass-market retailing – in May is a clear reflection of these developments. And even though inflation isn't far from peaking in the US, consumer prices in Europe could keep rising until autumn.

All this means that the European Central Bank, after raising its policy rate as expected in July, could very well lift it by a further 50 bp later in the year. Such a prospect would create problems among the EU's 27 member states, given their different economic trajectories and the varying extent to which they're using public debt to finance stimulus programmes.

The days of central-bank "puts" are well behind us. These institutions can no longer serve as lenders of last resort and keep pumping liquidity into the system, given the inflationary forces at work (e.g. the reshoring of production plants, the energy transition, and changes in the structure of savings).

This is a real worry. Many speculative bubbles have formed as a result of the highly accommodative policies pursued around the world in the past few years. And in the past, nearly every switch to a cycle of rate hikes has caused such bubbles to burst and/or asset prices to plummet.

Managing our portfolios accordingly

Against this backdrop, we have maintained the approach to equities outlined in [last month's investment report](#) – that is, a low net exposure evolving between 5% and 15% with a preference for high-quality, defensive names. That's because earnings growth will probably slow as economic output cools and inflation stays high. We pared back our investments in the banking sector, for instance, and shored up those in healthcare and consumer staples.

We also increased our holdings of gold-related assets. These investments can help protect our portfolios should the economic downturn get worse, or should the US economy prove to be more resilient than expected – a development that would increase the chances of a sustained pace of policy normalisation by the Fed, with the possible consequence of a slump in financial markets.

In fixed income, we have covered nearly all our corporate-bond holdings through the use of index hedging, since we believe idiosyncratic risk (i.e. intrinsic to a specific company or country) offers better compensation than systemic risk. Our emerging-market holdings are geared towards bonds from countries that stand to benefit from the high commodities prices and the relocation of supply chains.

Cash still makes up a sizable chunk of our portfolios, which we believe makes sense in the current climate. This dry powder will let us seize market opportunities as they arise – opportunities that could later turn out to be performance drivers for our funds.

Sources: Carmignac, Bloomberg, 09/06/2022

To read our latest market analyses



This is a marketing communication.

This material may not be reproduced, in whole or in part, without prior authorisation from the Management Company. This material does not constitute a subscription offer, nor does it constitute investment advice. This material is not intended to provide, and should not be relied on for, accounting, legal or tax advice. This material has been provided to you for informational purposes only and may not be relied upon by you in evaluating the merits of investing in any securities or interests referred to herein or for any other purposes. The information contained in this material may be partial information and may be modified without prior notice. They are expressed as of the date of writing and are derived from proprietary and non-proprietary sources deemed by Carmignac to be reliable, are not necessarily all-inclusive and are not guaranteed as to accuracy. As such, no warranty of accuracy or reliability is given and no responsibility arising in any other way for errors and omissions (including responsibility to any person by reason of negligence) is accepted by Carmignac, its officers, employees or agents. Past performance is not necessarily indicative of future performance. Performances are net of fees (excluding possible entrance fees charged by the distributor). The return may increase or decrease as a result of currency fluctuations, for the shares which are not currency-hedged. Reference to certain securities and financial instruments is for illustrative purposes to highlight stocks that are or have been included in the portfolios of funds in the Carmignac range. This is not intended to promote direct investment in those instruments, nor does it constitute investment advice. The Management Company is not subject to prohibition on trading in these instruments prior to issuing any communication. The portfolios of Carmignac funds may change without previous notice. The reference to a ranking or prize, is no guarantee of the future results of the UCIS or the manager. Risk Scale from the KIID (Key Investor Information Document). Risk 1 does not mean a risk-free investment. This indicator may change over time. The recommended investment horizon is a minimum and not a recommendation to sell at the end of that period. Morningstar Rating™ : © 2021 Morningstar, Inc. All Rights Reserved. The information contained herein: is proprietary to Morningstar and/or its content providers; may not be copied or distributed; and is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Access to the Funds may be subject to restrictions regarding certain persons or countries. This material is not directed to any person in any jurisdiction where (by reason of that person's nationality, residence or otherwise) the material or availability of this material is prohibited. Persons in respect of whom such prohibitions apply must not access this material. Taxation depends on the situation of the individual. The Funds are not registered for retail distribution in Asia, in Japan, in North America, nor are they registered in South America. Carmignac Funds are registered in Singapore as restricted foreign scheme (for professional clients only). The Funds have not been registered under the US Securities Act of 1933. The Funds may not be offered or sold, directly or indirectly, for the benefit or on behalf of a «U.S. person», according to the definition of the US Regulation S and FATCA. Company. The risks, fees and ongoing charges are described in the KIID (Key Investor Information Material). The KIID must be made available to the subscriber prior to subscription. The subscriber must read the KIID. Investors may lose some or all their capital, as the capital in the funds are not guaranteed. The Funds present a risk of loss of capital. The Funds' prospectus, KIIDs, NAV and annual reports are available at www.carmignac.com, or upon request to the Management. Investors have access to a summary of their rights in French, English, German, Dutch, Spanish, Italian at section 6 of "regulatory information page" on the following link :https://www.carmignac.com/en_US Carmignac Portfolio refers to the sub-funds of Carmignac Portfolio SICAV, an investment company under Luxembourg law, conforming to the UCITS Directive. The French investment funds (fonds communs de placement or FCP) are common funds in contractual form conforming to the UCITS or AIFM Directive under French law. The Management Company can cease promotion in your country anytime. UK: This document was prepared by Carmignac Gestion and/or Carmignac Gestion Luxembourg and is being distributed in the UK by Carmignac Gestion Luxembourg UK Branch (Registered in England and Wales with number FC031103, CSSF agreement of 10/06/2013). In Switzerland: the prospectus, KIIDs and annual report are available at www.carmignac.ch, or through our representative in Switzerland, CACEIS (Switzerland), S.A., Route de Signy 35, CH-1260 Nyon. The paying agent is CACEIS Bank, Paris, succursale de Nyon/Suisse, Route de Signy 35, 1260 Nyon. Copyright: The data published in this presentation are the exclusive property of their owners, as mentioned on each page. CARMIGNAC GESTION 24, place Vendôme - F-75001 Paris - Tél : (+33) 01 42 86 53 35 Investment management company approved by the AMF Public limited company with share capital of € 15,000,000 - RCS Paris B 349 501 676 CARMIGNAC GESTION Luxembourg - City Link - 7, rue de la Chapelle - L-1325 Luxembourg - Tél : (+352) 46 70 60 1 Subsidiary of Carmignac Gestion - Investment fund management company approved by the CSSF Public limited company with share capital of € 23,000,000 - RC Luxembourg B 67 549