



Fixed Income Update

Prepared for the New Wave

Published

November 10, 2020


Length

🕒 2 minute(s) read

Although the shutdown of activities has made the recovery more sluggish than ever, both Central banks and governments are providing unprecedented support, as confirmed by Christine Lagarde during the ECB monetary policy meeting last week, while a vaccine could be approved in the coming months opening the door for higher inflation expectations and positive economic surprises. The recent stricter lockdown measures implemented in Western countries don't have a significant impact on our base case scenario of having a vaccine produced and distributed in H2 2021.

To navigate this “lower rate for longer” environment, our Fixed Income strategies follow a “Barbell strategy”, balancing a high conviction core allocation to selective corporate credit, European subordinated financial debt and sovereign bonds (non-core Europe & EM) while counterbalancing these exposures by higher level of cash & equivalents, long duration towards core sovereign yields and an active management of protections & cash.

Our views by region:



UNITED STATES



The Federal Reserve is expected to support the recovery and prevent any unwarranted tightening of financial condition. Having a slightly long bias in US duration positions help Fixed Income portfolios in case of risk-off environment, that could arise be it linked to the virus/vaccine, growth-related, tight elections even if democratic sweep seems largely priced in but both polls & bookmakers have been wrong and dispute over results remains a possibility.

EUROZONE





In the Euro Area, valuations induce a limited downside potential on rates which would require further rate cut which appear unlikely over the short-term. Lagarde dovish intervention last week has confirmed that the ECB should intervene in December, probably through PEPP extension and/or further TLTROs which should favor carry strategies and potential spread compression on non-core sovereign debt and corporate credit bonds.

G10 COUNTRIES



In G10 countries, Australia appears particularly attractive on the rates side. We could see more easing going forward even if the RBA cut rates and announced a \$A100 QE recently. Going forward, the fiscal policy should be more expansionist which would require the Reserve Bank of Australia to reinforce its non-conventional monetary policies to absorb the expected higher debt supply and to depreciate the currency.



EMERGING MARKETS



At this stage, we remain cautious on emerging markets given the decline in capital flows and a fall in exports. Nevertheless, from a macro perspective, our team is closely monitoring the situation as the weaker US Dollar could lead to a more positive context for EM. Even if the overall EMD asset class does not present a very attractive risk/return profile, some countries represent an opportunity to continue generating higher returns like China, as slow employment recovery and the importance of the services sector suggests that the PBoC should keep a dovish policy for some time. Valuation wise, Chinese 5-year spreads versus developed market are close to all-time high at roughly +3% (source: Bloomberg, index W2G1).

To understand our positioning by Fund:

[Read the article](#)

This document is intended for professional clients. This is an advertising document. This document may not be reproduced, in whole or in part, without prior authorisation from the management company. This document does not constitute a subscription offer, nor does it constitute investment advice. Carmignac Portfolio refers to the sub-funds of Carmignac Portfolio SICAV, an investment company under Luxembourg law, conforming to the UCITS Directive. The Funds are common funds in contractual form (FCP) conforming to the UCITS Directive under French law. 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. Access to the Fund may be subject to restrictions with regard to certain persons or countries. The Fund is not registered in North America, in South America, in Asia nor is it registered in Japan. The Funds are registered in Singapore as restricted foreign scheme (for professional clients only). The Fund has not been registered under the US Securities Act of 1933. The Fund 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/or FATCA. The Fund presents a risk of loss of capital. The risks and fees are described in the KIID (Key Investor Information Document). The Fund's prospectus, KIIDs and annual reports are available at www.carmignac.com, or upon request to the Management Company. The KIID must be made available to the subscriber prior to subscription. - In Switzerland, the Fund's respective prospectuses, KIIDs and annual reports 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. - In the United Kingdom, the Funds' respective prospectuses, KIIDs and annual reports are available at, or upon request to the Management Company, or for the French Funds, at the offices of the Facilities Agent at BNP PARIBAS SECURITIES SERVICES, operating through its branch in London: 55 Moorgate, London EC2R. This material 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 Spain: Carmignac Portfolio is registered with Comisión Nacional del Mercado de Valores de España (CNMV) under number 392, Carmignac Sécurité 395. 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 - Tel : (+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.

