

Carmignac P. EM Debt: Letter from the Fund Manager



Author(s)
Joseph Mouawad

Published
January 11, 2023

Len

+9.08%

Carmignac P. EM Debt's performance
in the 4th quarter of 2022
for the FW EUR Share class

+0.45%

Reference indicator's performance
in the 4th quarter of 2022
for JP Morgan GBI –
Emerging Markets Global
Diversified Composite
Unhedged EUR Index

+8.63%

Of outperformance
versus the reference
indicator over the period

Carmignac P. EM Debt gained +9.08% in the fourth quarter of 2022, while its reference indicator¹ was up +0.45%.

Quarterly Performance Review

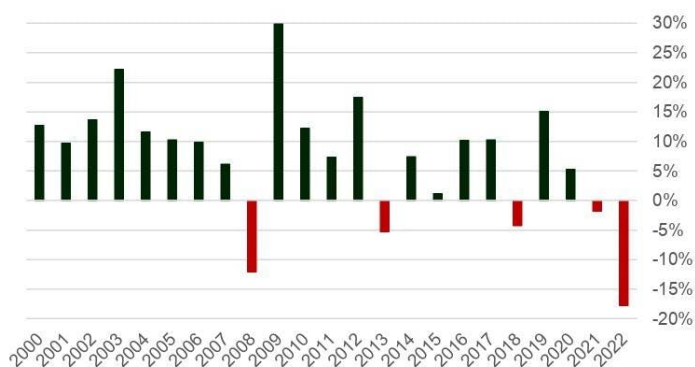
The last quarter of 2022 was driven by a recovered confidence in risk following a stabilization of the rates markets. This was driven partly by falling inflation and partly by expectations of an upcoming recession. The US Dollar consequently started to give back its stellar performance of the year.

Other headwinds to EM assets and risk in general have also started to turn. First the Federal reserve started signaling a shift in the speed of tightening given the inflation and growth prospect. China which had stuck to a strict zero covid policy is rushing to abandon that policy and pushing through a stimulus in its property sector. And finally, the war in Ukraine which had created a big shock in food and energy prices has started becoming more localized in eastern Ukraine and the world has adapted to the new reality in terms of commodities supply.

Market wise External debt rallied over 100bps and local debt yields rallied around 50bps while FX was more mixed, certainly rallying vs. USD but not necessarily vs. EUR which was one of the strong currencies in Q4.

In the year we have seen exceptionally negative returns in the EM universe with the EMBIGD benchmark returning -17.8% over 2022 exceeding the previous annual low of 2008 at -12.0%.

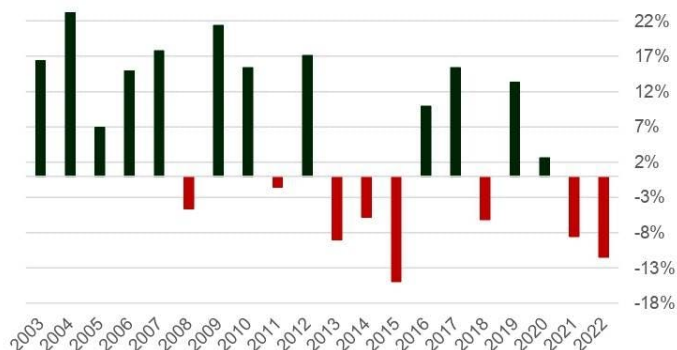
EMBIG Index (sovereign external debt index)



Source: Carmignac, Bloomberg, 30/12/2022

While the GBI-EM (Local Rates) returned the second worse year since the existence of the index at -11.5% vs -14.9% in 2015.

GBI EM EUR Index (sovereign local debt index) - Annual Returns



Source: Carmignac, Bloomberg, 30/12/2022

What have we done in this context

Following the rally in the credit bonds we have reduced the fund's exposure to high beta names selling for instance: Angola, Tunisia, Egypt and the Dominican Republic. Meanwhile we increased our allocation of front-end IG credits such as Romania, or Poland Quasi-Sovereigns. We continued to actively manage the overall credit risk via CDS.

In local rates we have reinforced very significantly our long exposure to Brazilian rates following the sell-off in mid-November. We have also continued to be long Hungarian rates which saw a rally following the resolution on the EU funds. More broadly as the global rates environment relaxed from mid-November we added some long rates in Mexico, and Korea while we reduced outperformers such as the Czech and Chilean Rates.

In FX the environment was not as conducive for EM to perform, over the month we retained a large exposure to the CZK thanks to its high carry as well as the credible anchoring of the currency by the central bank, while being highly correlated to EUR.

Outlook for the next months

Looking ahead we expect the main headwinds for EM fixed income to start slowly fading away. First, inflation is expected to keep edging down pushing eventually in Q1 the Federal reserve to pause its rate hiking cycle. China has clearly moved away from zero covid policy and has been injecting stimulus in its property sector which tends to be a key sector for EM globally. And finally, the world is adjusting to the energy and food shock which resulted from the war in Ukraine and will keep adjusting further as we're seeing all across Europe with the LNG terminals and the renewable push.

In that context we will be favouring duration again, mainly in local currency as well as credit in laggards such as central European names. We think that the early hikers remain interesting and in particular Brazil, however some late comers to the hiking cycle are also interesting such as Mexico.

FX is where we see the least upside against the EUR, but we expect the dollar to stay on a downward trend from here.

Sources: Carmignac, Bloomberg, 30/12/2022

Carmignac Portfolio EM Debt

Exploit fixed income opportunities across the entire emerging universe

[Discover the fund page](#)



Carmignac Portfolio EM Debt FW EUR Acc

ISIN: LU1623763734

Recommended
minimum
investment horizon



Main risks of the Fund

EMERGING MARKETS: Operating conditions and supervision in "emerging" markets may deviate from the standards prevailing on the large international exchanges and have an impact on prices of listed instruments in which the Fund may invest.

INTEREST RATE: Interest rate risk results in a decline in the net asset value in the event of changes in interest rates.

CURRENCY: Currency risk is linked to exposure to a currency other than the Fund’s valuation currency, either through direct investment or the use of forward financial instruments.

CREDIT: Credit risk is the risk that the issuer may default.

The Fund presents a risk of loss of capital.



Marketing communication. Please refer to the KID/KIID, prospectus of the fund before making any final investment decisions. This document is intended for professional clients.

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.

Morningstar Rating™ : © 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. The risks, fees and ongoing charges are described in the KID (Key Information Document). The KID must be made available to the subscriber prior to subscription. The subscriber must read the KID. 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, KIDs, NAVs and annual reports are available at www.carmignac.com, or upon request to the Management Company. 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.

In France, Luxembourg, Sweden: The risks, fees and ongoing charges are described in the KID (Key Information Document). The KID must be made available to the subscriber prior to subscription. The subscriber must read the KID. 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, KIDs, NAV and annual reports are available at www.carmignac.com, or upon request to the Management Company.

In the United Kingdom: the Funds' respective prospectuses, KIIDs and annual reports are available at www.carmignac.co.uk, 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 document was prepared by Carmignac Gestion, Carmignac Gestion Luxembourg or Carmignac UK Ltd. FP Carmignac ICVC (the "Company") is an Investment Company with variable capital incorporated in England and Wales under registered number 839620 and is authorised by the FCA with effect from 4 April 2019 and launched on 15 May 2019. FundRock Partners Limited is the Authorised Corporate Director (the "ACD") of the Company and is authorised and regulated by the FCA. Registered Office: Hamilton Centre, Rodney Way, Chelmsford, Essex, CM1 3BY, UK; Registered in England and Wales with number 4162989. Carmignac Gestion Luxembourg SA has been appointed as the Investment Manager and distributor in respect of the Company. Carmignac UK Ltd (Registered in England and Wales with number 14162894) has been appointed as a sub-Investment Manager of the Company and is authorised and regulated by the Financial Conduct Authority with FRN:984288.

In Switzerland: the prospectus, KIDs 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, Montrouge, Nyon Branch / Switzerland, Route de Signy 35, 1260 Nyon.

The Management Company can cease promotion in your country anytime. Investors have access to a summary of their rights in English on the following links: [UK](#) ; [Switzerland](#) ; [France](#) ; [Luxembourg](#) ; [Sweden](#).