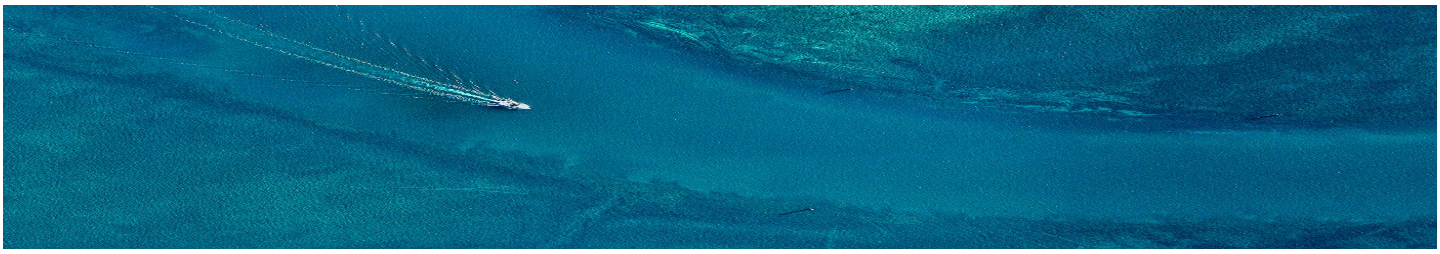
QUARTERLY REPORT

13.10.2022



Carmignac Portfolio Global Bond: Letter from the Fund Manager

Author(s)
Abdelak Adjriou

Published
October 13, 2022

Len

-0.67%

Carmignac P. Global Bond (A Euro Acc)

was down –0.67% in the third quarter of 2022

-0.92%

Reference indicator's performance

in the 3rd quarter of 2022 for JP Morgan GBI Global (EUR)

+0.25%

Outperformance of the fund

during the third quarter versus its reference indicator.

Carmignac P. Global Bond (A Euro Acc) was down –0.67% in the third quarter of 2022 while its reference indicator (JP Morgan GBI Global (EUR) declined by –0.92%.

Quarterly Performance Review

The market climate in the third quarter was again subject to three main sources of risk: heightened inflation prints, hawkish central banks and geopolitical uncertainties. As a reminder, inflation in the Eurozone hit new records, well above 9% year-on-year in August while US inflation remains as well very elevated to above 8%.

In this context, interest rates continue to rise while the main interest rate curves continued to flatten. Credit markets remained highly volatile with on the one hand CDS indices that widened slightly and on the other hand cash bond indices that remained overall flat Quarter on Quarter. Indeed, at the end of the period, we saw a major dislocation between CDS indices and cash bonds which explain this performance differential between the two (as a reminder CDS indices are derivative indices that should replicate cash bonds performance figures).

On the top of this “toxic cocktail” that took over the markets during the third quarter, tensions over energy supply in Europe continue to reside as does the US exceptionalism with a stronger than ever USD versus the rest of the currencies. As a matter of fact, the USD continued to appreciate against all the other currencies including the Euro and hence, as of mid-August the Euro-Dollar fell below parity. And if these movements are mainly explained by the FED’s persisting hawkishness and consequently the interest rate differential, they also translate the relative growth resilience of the US versus the rest of the world. Lastly, it seems that the USD is also playing its role as a safe haven asset in this context of major uncertainties and a potential hard landing of the global economy in the months to come. The consequences of a weaker Euro (also applicable to other currencies) are not limited to “just a currency depreciation issue”, since these also inflict a worsening of the inflation backdrop in these countries leaving the main Central Banks in a very delicate position.

Lastly, recent developments in the UK have put global markets under pressure. As a reminder, in the first instance markets were pushing expectation that the Bank of England would need to raise rates significantly to defend the Pound which then pushed yields to 13-year highs. This event caused major concerns among UK pension funds who started hitting margin calls therefore causing major losses to their portfolios. Consequently, the BoE had to intervene and announce a long-dated-bond-purchasing program in order to restore market stability.

How is the fund positioned?

Gowing forward, the portfolio remains positioned for central banks that will nonetheless continue to remain rather hawkish with a modified duration that remains low, yet positive, especially in the core countries that are well in advance of their hiking cycle (notably US, Australia, etc). We recognize that we are in a recessionary and inflationary context, and hence we maintain as we speak heightened credit protections. We continue to monitor closely commodity and commodity-related-currency baskets which we believe will continue to resist at technical levels and could be supported throughout the slowdown.

We also remain alert to the energy situation in the Euro Zone with a potential extension of the complete Russian gas cut-off for winter. This would be extremely detrimental to growth in the Eurozone, and it would in our view put an additional stress on the corporate credit names.

On the monetary policies front, and following the UK events, central bankers will be facing an additional dilemma between inflation currency depreciation, growth and their financial systems.

Lastly, we remain cautious for the moment on emerging market assets notably through:

- Long external currency sovereign debt (i.e. Mexico, Oman, Hungary and Egypt)
- Short positions in local currency government debt in countries which are behind of the hiking cycle (i.e. India and Thailand)
- Long positions in currencies (i.e. Brazilian real, Canadian Dollar)
- Long positions in so-called "defensive" currencies (i.e. US dollar, Japanese yen, Swiss franc etc.).

What is our outlook for the coming months?

We maintained a defensive yet slightly positive modified duration during the quarter which weighed on the fund’s performance. Indeed, our sovereign bond and yield curve strategies penalized us.
On the contrary, our credit positioning contributed positively to the absolute performance of the fund thank to our hedging positions in the high yield segment which cushioned most of the spread widening movement that took place.
Lastly, we recorded a strong performance from our currency strategies, both on our long positions in the US dollar, commodity-related currencies of the Latin American bloc.

Carmignac Portfolio Global Bond

A global and flexible approach to Fixed Income markets

Discover the fund page

Carmignac Portfolio Global Bond A EUR Acc

ISIN: LU0336083497

Recommended minimum investment horizon

Lower risk Higher risk

1	**2***	3	4	5	6	7

Main risks of the Fund

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

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.

DISCRETIONARY MANAGEMENT: Anticipations of financial market changes made by the Management Company have a direct effect on the Fund's performance, which depends on the stocks selected.

The Fund presents a risk of loss of capital.