



Carmignac Sécurité: Letter from the Fund Manager



Author(s)
Marie-Anne Allier

Published
April 21, 2023

Leng
6

-0.12%

Carmignac Sécurité's
performance

in the 1st quarter of 2023
for the A EUR Share class

+0.70%

Reference indicator's
performance

in the 1st quarter of 2023
for ICE BofA ML 1-3 years
Euro All Government Index
(EUR)

1st quartile

Of its Morningstar
category

over 1 year and 3 years
Morningstar category: EUR
Diversified Bond – Short
Term.

*In the first quarter of 2023, **Carmignac Sécurité** fell by -0.12%, while its reference indicator¹ was up 0.70%.*

The bond markets today

European fixed income markets have beaten the pessimistic predictions of investors: while a majority of analysts warned of a plethora of paper supply that would weigh on rates, while the reduction of the Central Bank's balance sheet was expected to weigh on sovereign credit margins, and while a recession was expected to put pressure on corporate credit spreads, in the end, nothing of the sort happened. From date to date, German 10-year yields have fallen by 28bps, high yield spreads (measured by the iTraxx Crossover index) have tightened by 38bps and Italy has outperformed Germany by almost 34bps! Three major phases marked this quarter:

January with a rally in interest rates, credit spreads and country spreads, partly due to a very conservative December and investors who had prepared their portfolios well in advance;

The month of **February** with an upward movement in rates, particularly on the short end of the curve. Inflation that remains more persistent than expected, growth that finally remains strong and a hawkish ECB have pushed 2-year rates above 3.25% with the market estimating the end of the ECB rate hike cycle at 4%. At the same time, credit remains very resilient and if credit spreads stop tightening significantly, carry allows the asset class to perform well. As far as intra-country spreads are concerned, it's dead calm, especially in Italy, where the government of Mrs Meloni has achieved a perfect economic record.

Finally, **March** was a much more chaotic month. The first jolt came from the United States. The rate hikes are starting to have an effect and the weak links are showing: the US regional banks in particular are suffering from the rising cost of deposits and competition from more profitable investments. The failure of Silicon Valley Bank has brutally highlighted the possible fragility of financial stability in this context. The rapid response of the US monetary authorities initially limited the contagion. However, this American gale caused Credit Suisse to falter in Europe. The rescue of the bank by the Swiss authorities by forcing an absorption by UBS, while it had the merit of being quick, somewhat upset the expected order of creditors' seniority: the AT1 bonds (admittedly highly subordinated but still bonds) saw their value set at zero while the shareholders (in theory the most junior in the capital structure) received a (meagre) payment. Investors therefore quickly concluded that this was the death knell for aggressive monetary policy and rates corrected violently downwards, especially on the short end. At the same time, the flight-to-quality reflexes were working, with credit spreads widening, and of course particular pressure on financial debt, especially subordinated debt.

Performance

In this context, the fund performed well in January and February: the low modified duration of the fund in January was more than offset by investments in credit bonds, and the carry of this pocket allowed the fund to absorb the rise in interest rates in February. On the other hand, the first 15 days of March were very negative for the fund: our credit exposure, although substantially reduced in February, weighed on the fund (especially since financial bonds make up a significant part of the portfolio), and the hedges on the short end of the curve that we had put in place to protect ourselves from the hawkish tone of the Central Banks generated a strongly negative performance as rates fell. To adapt to this new environment, we increased the modified duration of the fund by liquidating all short interest rate positions and buying German 5- and 10-year bonds. We also put in place credit protection via indices. The last two weeks of March, which were calmer, enabled the fund to regain some colour, with portfolio construction and the carry embedded in the fund (4.9% at the end of March) resulting in a positive performance.



Positioning

At the end of March, the fund had a duration of 2.7 compared with 0.9 at the end of December, and credit represented 47% of assets (excluding CLOs) compared with 56% at the end of December. The fund is therefore positioned more defensively, with a heightened duration contribution to core rates. Indeed, the deterioration of US macroeconomic data, the deceleration of inflation and the latest turbulence in the banking sector threatening financial stability are warning signs that the end of the rate hike cycle is not far off, first and foremost in the US where we expect a recession in the second half of the year. The European economy is a few months behind the US in the growth and inflation cycle, which should allow the ECB to raise rates a little longer than the Fed. Nevertheless, monetary policy will not be able to diverge from that of the US for very long without significant consequences for the exchange rate, financial conditions and ultimately growth.

The ECB should therefore follow the Fed's lead by ending the rate hike cycle by the summer, which should support intermediate maturity sovereign bonds. On the credit side, we are also adopting a more defensive stance by reducing our overall allocation through the sale of securities and the purchase of options on the iTraxx Crossover CDS index, as a recession in the United States seems inevitable. On the other hand, the asset class continues to offer interesting opportunities, incorporating a high recession risk (the iTraxx Crossover index induces an annualised default rate of nearly 8% in Europe compared to the historical average rate of nearly 2%) and offering yields close to the highest for the decade, and therefore a cushion of protection in case of a credit spread widening.

Moreover, the mechanisms put in place since 2008 and reinforced following the Silicon Valley Bank bankruptcy should make it possible to avoid a real banking crisis. We are focusing our allocation on more defensive segments, notably short maturities and investment grade ratings, and have reduced our exposure to the high yield sector. We favour the energy and financial sectors as well as CLOs. In particular, our exposure to the financial sector is 21% (including only 2% on AT1 subordinated bonds favouring national champions). European banks benefit from stronger fundamentals than in the US, through stronger regulation and higher capitalization and liquidity ratios. The average yield to maturity of the portfolio is approaching 5% at the beginning of the second quarter.

Source: Carmignac, 31/03/2023. Performance of the AW EUR acc share class ISIN code: FR0010149120.¹Reference indicator: ICE BofA ML 1-3 ans All Euro Government Index. **Past performance is not necessarily indicative of future performance. The return may increase or decrease as a result of currency fluctuations. Performances are net of fees (excluding possible entrance fees charged by the distributor). Marketing communication.** Please refer to the KIID/prospectus of the fund before making any final investment decisions.

Carmignac Sécurité

Flexible, low duration solution to challenging European markets

[Discover the fund page](#)



Carmignac Sécurité AW EUR Acc

ISIN: FR0010149120

Recommended
minimum
investment horizon



Main risks of the Fund

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

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

RISK OF CAPITAL LOSS: The portfolio does not guarantee or protect the capital invested. Capital loss occurs when a unit is sold at a lower price than that paid at the time of purchase.

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.

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](#).