RUSSIA-UKRAINE CRISIS: WHAT ARE THE IMPACTS?

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- We have decided not to purchase any Russian securities until further notice
- The Russo-Ukrainian conflict induces a stagflation risk for the global economy

The conflict between Russia and Ukraine is a real tragedy for Europe and the world. It has undermined peace and is putting the lives of thousands of innocent people at risk. Our thoughts are first and foremost with the victims of this conflict, which we hope will be resolved soon.

Our task, which we take very seriously, is to manage to the best of our ability the capital that our clients have entrusted to us. This unique context requires us to pay close attention to any developments in the geopolitical and economic situation and act accordingly, all the while keeping in line with our contractual and legal obligations.

The Russian invasion now raises the question of the eligibility of Russian securities for our funds. Our conviction-driven approach has always been framed by an ethical policy that we have incorporated into our investment strategy. Carmignac has therefore decided not to purchase any Russian securities until further notice. Meanwhile, we are committed to divesting from any remaining Russian securities in our portfolios, considering extra-financial aspects as well as market conditions, in order to preserve the interests of our clients, our primary objective.

THE NEW GLOBAL ECONOMIC ENVIRONMENT

The world economy is facing a triple shock. The first is affecting international trade with disruptions in energy but also food commodities, metals, fertilizers and air cargo. The second shock is the uncertainty caused by the collapse of the post-Cold War geopolitical order, along with the risk of further escalation. Finally, the third is a financial shock, with potential defaults by Russian and Ukrainian entities and contagion risk to other countries.

The Russo-Ukrainian conflict and associated economic sanctions induce a stagflation risk, i.e. an economic slowdown coupled with high inflation. The scarcity of available commodities could lead to major disruptions in supply chains, with negative effects on growth and further price increases. While the economic outlook for 2022 was already pointing to a slowdown in the pace of growth and resilient inflation, this conflict is amplifying economic trends that we had incorporated into our investment strategy.

The effects of slower growth and accelerating inflation will affect Europe and Asia more than the United States. Indeed, the main macroeconomic spill over effect comes from commodity prices, to which the European Union is most sensitive given its dependence on oil and gas imports.

Making assumptions on the degree of escalation in the conflict, both militarily and economically, we have simulated a range of plausible scenarios and assessed their consequences for Europe and the United States. According to our estimates, the war in Ukraine could impact growth in Europe by 0.5 to 2 percentage points and have an additional impact on inflation of +1.1 to +1.7 points on a full year basis. For the United States, the impact would be lower, ranging from -0.2 to -0.5 points on growth, and from +0.7 to +1.2 points on inflation depending on the degree of severity of the scenarios.

ADAPTING OUR INVESTMENT STRATEGY

The identification of 'stagflationary' trends before the conflict led us to adopt a more cautious positioning and to reduce our exposure to risky assets. On the equity side, our investments, which were overweight in the United States, are now largely concentrated in defensive segments such as healthcare and consumer staples and/or in those offering good visibility at reasonable valuations within the information technology and consumer sectors. The share of growth companies that we consider expensive in view of the evolution of their share prices and/or their prospects has been greatly reduced.

At the same time, we have reduced the overall net exposure to equities of our funds in the Patrimoine range to around 5%, mainly as a result of so-called hedging transactions – i.e. by using financial instruments to reduce the risk of stock market fluctuations.