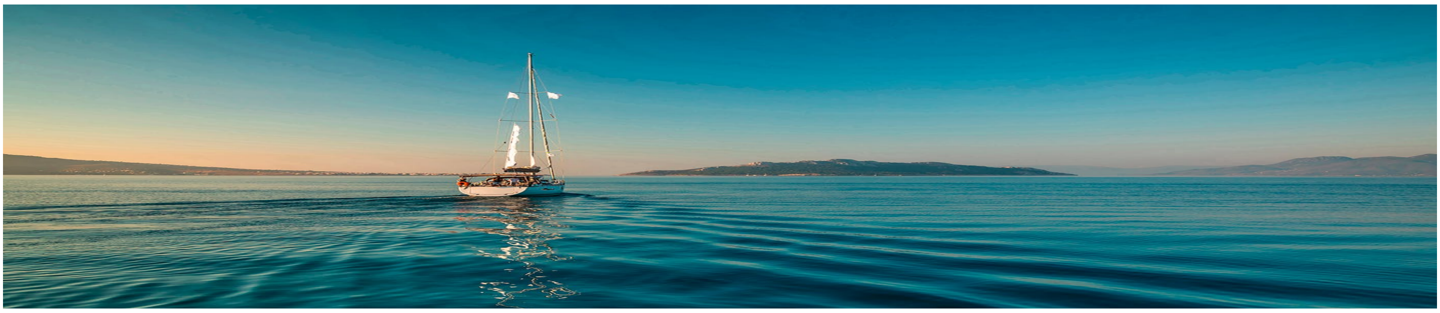

Fixed income markets: how to take advantage of interest rate and inflation risks?

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An increasingly complex fixed income environment

Although the health situation is improving, thanks to a marked acceleration in vaccination campaigns (particularly in developed countries), the positive outlook for a return to normality heralds the resurgence of fears linked to rising interest rates and inflationary expectations. These concerns have already been confirmed since the beginning of the year, mainly in the United States and Europe.

Impact on fixed income markets

A complex situation characterized by negative performance for a large majority of bond assets since the beginning of the year.

The consequence for investors

Low returns that could be further impacted by a rise in interest rates, particularly in the case of traditional or passive management.

So how can we manage - and exploit - these risks of rising interest rates and inflationary expectations in fixed income markets?

It requires a fundamentally active fixed income solution, with all the necessary tools to confront these risks and transform them into a source of performance.

Carmignac Portfolio Flexible Bond

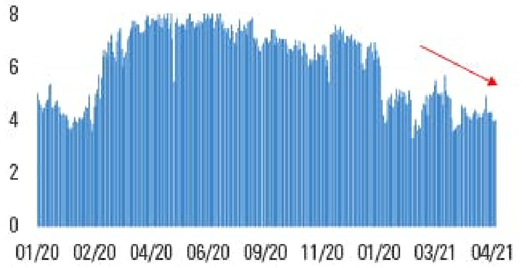
A flexible approach to navigate global fixed income markets

Active risk management in all market environments

Carmignac Portfolio Flexible Bond is a fixed income asset allocation strategy designed to seize global opportunities in these markets, while systematically hedging currency risk. With its broad investment universe and flexible management of modified duration, the Fund is able to take advantage of both downward and upward movements in interest rates or inflation, while actively managing risk.

Protection against interest rate risk and transforming it into a performance driver

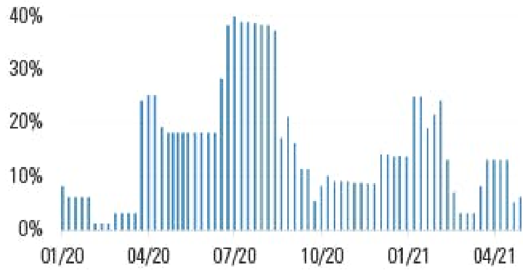
Active modified duration management within the Fund since the beginning of 2020



Thanks to its wide modified duration range between -3 and +8, the Fund can implement short strategies on all yield curves for all maturities. Carmignac Portfolio Flexible Bond can even go beyond reducing or neutralising interest rate risk by using derivatives to achieve negative modified duration, either on a specific yield curve or at the Fund's level.

Turning inflationary risk into a performance driver

Evolution of the Fund's exposure to inflation strategies since the beginning of 2020



The Fund has access to all segments of the fixed income universe, allowing it to implement inflation strategies by investing in inflation-indexed bonds or "break-even" inflation bonds, both in Europe and internationally. It is thus able to manage its exposure dynamically depending on the level of inflationary expectations in order to exploit them.

Source: Carmignac, 30/04/2021.

Did you know?

Carmignac Portfolio Flexible Bond combines a top-down approach with a bottom-up implementation of interest rate and credit strategies: the portfolio is constructed on the basis of the managers' convictions in each segment of the fixed income universe and an in-depth analysis of the markets. They benefit from the expertise of the entire management team and of our credit, emerging debt and financial debt specialists.

In practice: managing periods of rising interest rates and inflation

In the current environment, the interest rate and inflation strategies implemented in the Carmignac Portfolio Flexible Bond portfolio reflect our specific views on certain economies for which we are expecting monetary policy normalisation or strong inflationary pressures. We also adjust the calibration of these strategies tactically, depending on the level of valuations.

SHORT POSITIONS ON US RATES

The Fund's modified duration has been reduced, in particular through the use of derivatives, in consideration of the risk of rising interest rates associated with the reopening of economies. After a certain lull, we believe that US rates have renewed upside potential, justifying short positions.

LONG POSITIONS ON EUROPEAN CORE RATES

European rates have risen sharply in recent weeks, lagging their US counterparts. Nevertheless, we believe that the market is overly optimistic about the European Central Bank's first rate hikes and that the current rate levels in the region constitute a good entry point.

SHORT POSITIONS ON EUROPEAN INFLATION

Stimulating inflationary expectations is not the European Central Bank's priority, so their levels seem too high to us and justify short positions on eurozone inflation. It can also protect the portfolio should the economy perform disappointingly.

LONG POSITIONS ON US INFLATION

The recovery of the US economy should be accompanied by a sharp rebound in inflation, supported by a central bank willing to let the economy overheat to reach full employment.

Source: 26/05/2021.

Interested in finding out more?

Contact us

Carmignac Portfolio Flexible Bond A EUR Acc

ISIN: LU0336084032

Lower risk Higher risk

Potentially lower return Potentially higher return

Recommended minimum investment horizon

1	2	3*	4	5	6	7

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.

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.

EQUITY: The Fund may be affected by stock price variations, the scale of which is dependent on external factors, stock trading volumes or market capitalization.

The Fund presents a risk of loss of capital.