

CARMIGNAC P. FLEXIBLE BOND: LETTER FROM THE FUND MANAGERS

13/10/2022 | GUILLAUME RIGEADE, ELIEZER BEN ZIMRA

-0.51%

Carmignac P. Flexible Bond's performance in the 3rd quarter of 2022 for the A EUR Share class

-4.70%

Reference indicator's performance in the 3rd quarter of 2022 for ICE BofA ML Euro Broad index (EUR)

+3.57%

Outperformance of the Fund Year to date versus its reference indicator

Carmignac Portfolio Flexible Bond lost -0.51% (A EUR Acc) in the third quarter of 2022, substantially outperforming its reference indicator¹, which fell by -4.70%.

THE BOND MARKET TODAY

The economic consequences of Russia's unjustified invasion of Ukraine have been seen primarily in an energy crisis, against the backdrop of interrupted natural gas supplies from the Nord Stream pipeline. Germany's manufacturing sector was built partly on the back of cheap energy from Russia, so the reduction and subsequent halt of gas deliveries has undermined a pillar of Europe's economy. However, European countries seem determined to defend their democratic values, even if that means suffering a recession this winter and watching inflation soar to levels never seen before in the history of the single currency.

The latest readings indicate that eurozone headline inflation has reached the double digits and that core inflation came in at 6% - higher than the peaks recorded in the US in Q2 2022. Meanwhile, CEO and consumer confidence has plummeted in the currency bloc amid concerns that natural gas inventories will run out this winter and that skyrocketing energy bills will push many firms into bankruptcy unless policymakers take robust action. The combination of high inflation and recessionary fears has pushed the euro down even lower against the US dollar, causing it to fall below parity, an important psychological level.

The European Central Bank has therefore had no choice but to raise its key interest rate sharply, lifting it by a total of 125 bp in the two meetings held in Q3. That puts the ECB among the vast majority of central banks that are tightening monetary and financial conditions at a record pace in order to stem the rising tide of inflation. As we've seen in the US, today's inflationary pressure is stubborn in nature and affecting all segments of the economy.

The Bank of England even went so far as to announce its first-ever programme to sell UK government bonds. This was followed by the Truss government's unveiling of an unconventional mini-budget designed to boost economic growth. But in response to the prospect of liquidity withdrawals by the central bank and a widening fiscal deficit, investors turned their back on gilts to an unprecedented scale, forcing the BoE to re-introduce its bond-buying programme in order to calm the financial-market storm.

In this climate ripe with uncertainty about both economic growth and inflation, corporate bonds – and especially those in the high-yield segment – outperformed sovereign ones considerably. We believe that the attractive prices we're now seeing in the corporate-bond market already factor in high default rates in this cycle and that investors have been reassured by central banks' swift action to nip anything looking like a liquidity crunch in the bud.

PORTFOLIO ALLOCATION

We adjusted our asset allocation in Q3 in response to the changing market climate.

- **We substantially reduced the portfolio's modified duration.** We decided to focus our short positions on German and Italian rates, given that real interest rates in these countries are still negative and the ECB has no choice but to keep tightening monetary policy; it could even follow in the Fed's and BoE's footsteps and start shrinking its balance sheet. We also added a short position on Japanese rates, since inflation in the country – already record-breaking – should keep climbing, amid tensions between the Japanese government and central bank.
- **We continued to increase our credit-market exposure.** Prices are even more attractive now that credit spreads have stabilised at high levels. We therefore reinforced our positions on the strongest convictions in our portfolio: European financial debt, high-yield corporate bonds, collateralised loan obligations, and EM debt. Because we believe the credit market will remain volatile, we decided to keep a substantial level of protection (around 12%, consisting of CDSs).

OUTLOOK

Rate-hike expectations now seem high enough to trigger a sharp slowdown in economic output and, in the medium term, tame inflation. But we still believe that the growing fiscal deficits, especially in continental Europe and the UK, will maintain a certain amount of upwards pressure on long-term yields.

Our portfolio remains centred on our three main themes, which offer attractive valuations and solid fundamentals even in this turbulent climate: corporate bonds issued by companies linked to commodities and energy prices; subordinated financial debt; and EM debt. Around 17% of our portfolio consists of cash and money-market instruments and we have credit protection (CDSs) in place, enabling us to deploy our capital should the market dislocations get worse, creating new opportunities in the process.

CARMIGNAC PORTFOLIO FLEXIBLE BOND A EUR ACC

(ISIN: LU0336084032)

SFDR - Fund Classification** :

Article **8**



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. **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.

*Risk Scale from the KID (Key Information Document). Risk 1 does not mean a risk-free investment. This indicator may change over time. **The Sustainable Finance Disclosure Regulation (SFDR) 2019/2088 is a European regulation that requires asset managers to classify their funds as either 'Article 8' funds, which promote environmental and social characteristics, 'Article 9' funds, which make sustainable investments with measurable objectives, or 'Article 6' funds, which do not necessarily have a sustainability objective. For more information please refer to <https://eur-lex.europa.eu/eli/reg/2019/2088/oj>.

PERFORMANCE (ISIN: LU0336084032)

Calendar Year Performance (as %)	2016	2017	2018	2019	2020
Carmignac Portfolio Flexible Bond	+0.1 %	+1.7 %	-3.4 %	+5.0 %	+9.2 %
Indicateur de référence	-0.3 %	-0.4 %	-0.4 %	-2.5 %	+4.0 %

Calendar Year Performance (as %)	2021	2022	2023	2024	2025 (YTD)
Carmignac Portfolio Flexible Bond	+0.0 %	-8.0 %	+4.7 %	+5.4 %	+2.9 %
Indicateur de référence	-2.8 %	-16.9 %	+6.8 %	+2.6 %	-0.8 %

Annualised Performance	3 Years	5 Years	10 Years
Carmignac Portfolio Flexible Bond	+3.5 %	+3.8 %	+1.2 %
Indicateur de référence	+1.5 %	+1.6 %	+1.3 %

Source: Carmignac at Mar 31, 2025.

Past performance is not necessarily indicative of future performance. Performances are net of fees (excluding possible entrance fees charged by the distributor).

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.

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