



Carmignac - H2 2023 Outlook

Author(s)
Raphaël Gallardo, Kevin Thozet

Published
June 26, 2023

Leng
🕒 3

Resilient economies and sticky inflation mean central banks won't pivot in H2 2023. They will keep pushing the terminal rate until a recession dynamic is unmissable in the data.

But their resolve will face political tests as we move into 2024.

In fixed income, nominal and real-yields, as well as credit appeal.

In equities, markets are expected to continue walking a tightrope as long as the economy slows and doesn't fall off a cliff and the pace of disinflation keeps rates, and hence equities in check. We're leaning towards defensive stocks and sectors given the slower economic backdrop.

Economic perspectives – Raphaël Gallardo, Chief Economist



« The real cycle in developed economies has so far proved resilient to monetary tightening thanks to pandemic-induced changes in corporate and fiscal governance. Cash buffers accumulated in the private and local government sector, orders backlogs and higher desired inventories, and industrial policies all cushioned the effect of rampant monetary tightening.

But G10 central banks are not done. Sticky wage inflation, falling potential growth and low equity risk premia prevent them from declaring the end of the tightening cycle in 2023.

After a seemingly ‘immaculate’ disinflation to 3% in the next 12 months, returning to the 2% target will not be quite so smooth. It will require an increase in unemployment to typical recessive levels. Because risky assets do not embed in their pricing a recession scenario or an erosion of margins consistent with a return to the inflation target, the economic slowdown could be compounded by financial market volatility.

2024 will test central banks’ resolve to follow Volcker’s steps. As they keep pushing the unemployment rate higher, central bankers will face mounting financial stability risks and escalating political pressure. If they lose control of the recessive dynamic, fiscal dominance will be their main concern in 2025.

In China, geopolitics trump economics. The growth model is broken, but rather than trying to fix it, the leadership is focused on preparing the economy to weather “extreme scenarios”. Monetary and regulatory easing will not suffice to stave off debt-deflation risk this year. We expect more forceful fiscal easing to come by Q4, which should allow a pick-up in global trade in early 2024. »

Our investment strategy – Kevin Thozet, member of the investment committee



Fixed income

« For now, we prefer core bonds with long to intermediate maturities (5 to 10 years).

Central banks’ dependency on economic data means one has to prepare for a variety of scenarios. Confirmation of the economic slowdown and the pace of disinflation will push interest rates to much lower levels across the board. Conversely, if the economy shows

even greater signs of resilience, this would lead central bankers to raise policy rates further, which in turn would weigh on the longest-term bond yields as more pronounced tightening of monetary policy increases the likelihood of the economy contracting sharply.

Real yields are also appealing given there is little to no easing being priced over the foreseeable future on the one hand and overly auspicious inflation expectations on the other. »

Credit market: mine the gap!

« Tighter lending conditions in the wake of restrictive monetary policy and slower economic growth is expected to result in a pick-up in default rates. And yet, both students of Schumpeter and vigilant credit investors can see long-term benefits.

Credit spreads are factoring in default rates greater than the GFC euro debt crisis period. This is a tempting divergence as the cost of risk has finally returned. Credit is expected to draw attractive returns on par with equity markets' long-term returns. »

Equities

« Markets are walking a tightrope. While the economy slows (but doesn't fall off a cliff) and the pace of disinflation keeps pace, rates and equities have been kept in check.

The fall in volatility (VIX at three-year lows) from its correlation component tends to be particularly conducive for stock selection. And the economic slowdown suggests a bias towards defensive stocks and sectors. We see opportunities in:

Healthcare: Combining short-term resilience and long-term growth prospects.

Consumer: Attention will shift to the lower cost base and how to benefit from a policy pivot (when it eventually comes), but a rotation from non-cyclical consumer to discretionary spending is far away. The key question is how disinflation and the economic slowdown will impact spending along with the risk of increasing price wars as retailers vie for attention.

Technology: The AI bridge and a shift towards spending orthodoxy add depth to a sector which tends to fair well given prevailing economic conditions of falling long-term rates and slower growth.

Gold: The emergence of a multipolar world along with risk of fiscal dominance provides long-term tailwinds for gold, a potentially appealing asset in a period of geopolitical uncertainty and mounting recessionary concerns. »

Further sources of diversification

« Emerging market debt in local currencies displays both a high carry, given the level of nominal yields and promising capital appreciation, given the level of real yields, should growth surprise on the downside. Along with long-term growth tailwinds. Besides, the segment is relatively immune to the "risk-on, risk-off" market narrative.»

See also: correlation and diversification



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/en, 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/en, or upon request to the Management Company.

In the United Kingdom: the Funds' respective prospectuses, KIIDs and annual reports are available at www.carmignac.com/en-gb, 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.com/en-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.

In Spain : The Funds are registered with the Spanish National Securities Market Commission (Comisión Nacional del Mercado de Valores) under the following numbers: Carmignac Sécurité 395, Carmignac Portfolio 392, Carmignac Patrimoine 386, Carmignac Absolute Return Europe 398, Carmignac Investissement 385, Carmignac Emergents 387, Carmignac Credit 2027 2098, Carmignac Credit 2029 2203, Carmignac Credit 2031 2297, Carmignac Court Terme 1111.

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](#).

For Carmignac Portfolio Long-Short European Equities: Carmignac Gestion Luxembourg SA in its capacity as the Management Company for Carmignac Portfolio, has delegated the investment management of this Sub-Fund to White Creek Capital LLP (Registered in England and Wales with number OCC447169) from 2nd May 2024. White Creek Capital LLP is authorised and regulated by the Financial Conduct Authority with FRN : 998349.

Carmignac Private Evergreen refers to the Private Evergreen sub-fund of the SICAV Carmignac S.A. SICAV – PART II UCI, registered with the Luxembourg RCS under number B285278.