




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

Published

June 7, 2021

Length

 3 minute(s) read

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.

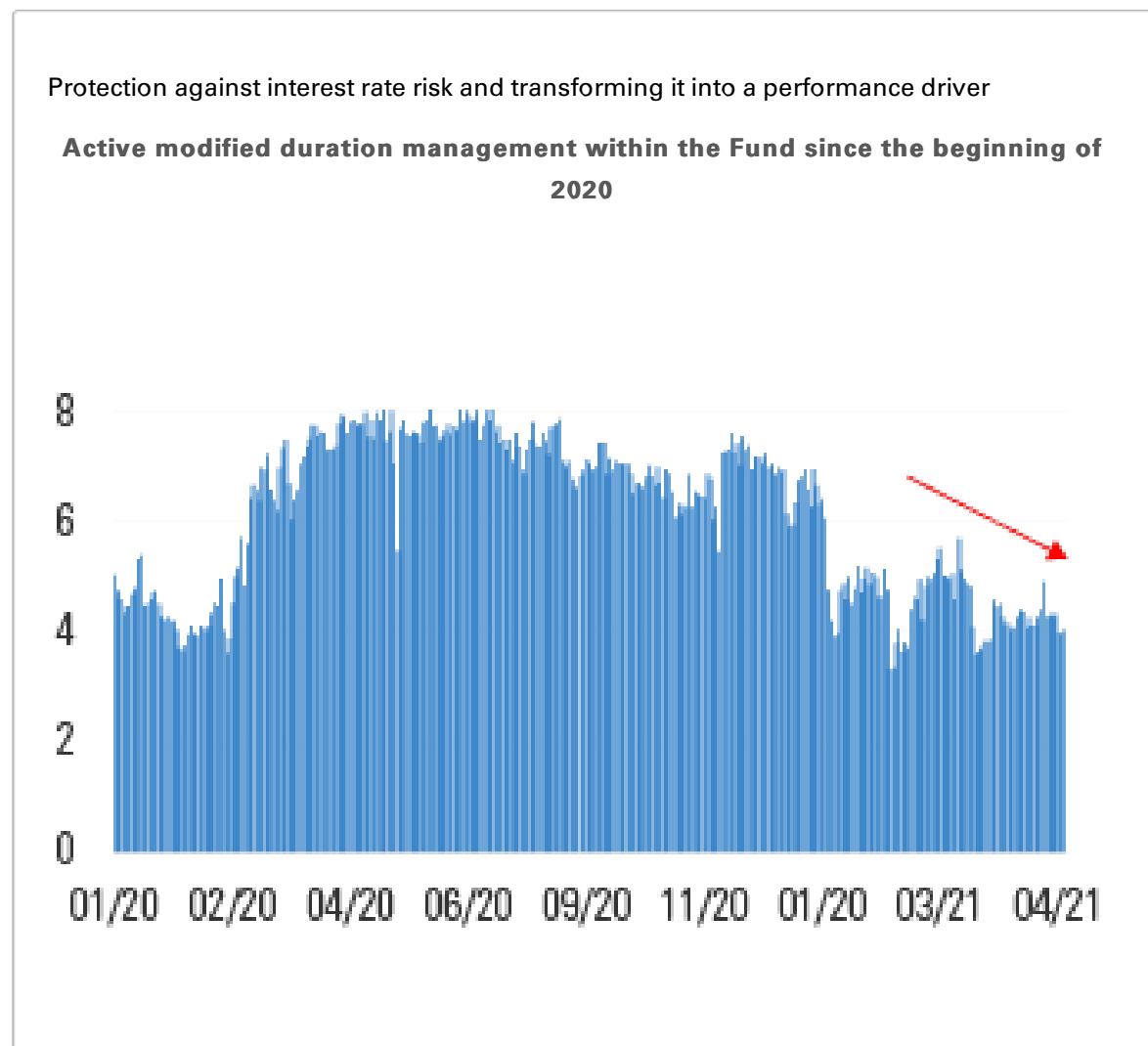
So how can we manage - and exploit - these risks of rising interest rates and inflationary expectations in fixed income markets?

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.



Active risk management in all market environments

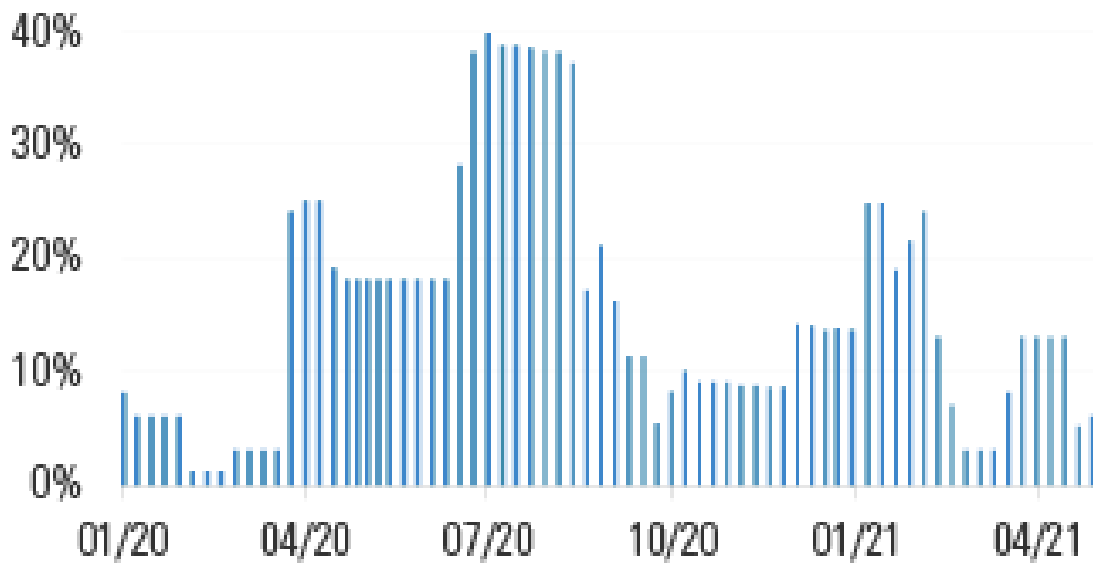
Carmignac Portfolio Flexible Bond is a fixed income asset allocation strategy designed to seize global opportunities in these markets, while systematically hedging currency risk. With its broad investment universe and flexible management of modified duration, the Fund is able to take advantage of both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



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 flexible approach to navigate global fixed income markets

- A fixed income asset allocation solution hedged against currency risk
 - An active, conviction-based approach to capture bond market opportunities globally
 - A flexible, non-benchmarked philosophy to navigate different market environments
-

Carmignac Portfolio Flexible Bond

← Lower risk Higher risk
Potentially lower return Potentially
higher return
investment horizon →

1
2
3*
4
5
6
7

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

*For A EUR ACC share class. Risk Scale from the KIID (Key Investor Information Document). Risk 1 does not mean a risk-free investment. This indicator may change over time.

PROMOTIONAL MATERIAL. For professional investors only. This document may not be reproduced, in whole or in part, without prior authorisation from the management company. This document does not constitute a subscription offer, nor does it constitute investment advice. The information contained in this document may be partial information and may be modified without prior notice. Carmignac Portfolio Flexible Bond is a sub-fund of Carmignac Portfolio SICAV, an investment company under Luxembourg law, conforming to the UCITS Directive. Carmignac Portfolio Flexible Bond is the new name of Carmignac Portfolio Unconstrained Euro Fixed Income since March 10th, 2021. The Fund's objectives, investment strategy, risk management and fee structure remain unchanged. 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. Access to the Fund may be subject to restrictions with regard to certain persons or countries. The Fund is not registered in North America, nor in South America. The Fund has not been registered under the US Securities Act of 1933. The Fund 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/or FATCA. The Fund presents a risk of loss of capital. The risks, fees and ongoing charges are described in the KIID (Key Investor Information Document). The Fund's prospectus, KIIDs, NAV and annual reports are available at www.carmignac.com or upon request to the Management Company. • In Switzerland, the Fund's prospectus, KIIDs and annual reports 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, Paris, succursale de Nyon / Suisse, Route de Signy 35, 1260 Nyon. The KIID must be made available to the subscriber prior to subscription. • In the United Kingdom, the Fund's prospectus, 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 material was prepared by Carmignac Gestion and/or Carmignac Gestion Luxembourg and is being distributed in the UK by Carmignac Gestion Luxembourg UK Branch (Registered in England and Wales with number FC031103, CSSF agreement of 10/06/2013).