


The main convictions of Carmignac Portfolio Global Bond

Published	Length
June 16, 2022	 7 minute(s) read

The current environment, characterized by rising interest rates, high inflation and increasing geopolitical risks, is a major challenge for most bond investors. In this context, and in order to navigate on this new geopolitical and monetary order, it is therefore crucial to have the ability to invest across all fixed income and currencies assets.

Investment Philosophy & Key Selling points

We believe that Carmignac P. Global Bond has the tools to meet these macro-economic and financial challenges, notably through:

A global investment universe that allows us to identify **macro-economic trends around the world**. This allows us to invest in all geographical areas and to take advantage of any macroeconomic asynchrony across all eligible assets.

A **multitude of alpha sources across all bond sub-sectors**, including interest rates, credit and currency strategies in both developed and emerging markets.

A **flexible and unconstrained investment process that aims to "cross the cycles"** that employs both long and short strategies to optimize performance while mitigating risk in all market conditions, enabling us to meet our clients' current challenges.

As a reminder, our main investment guidelines are as follows:

Modified duration: -4 to 10.

Structured credit exposure: 0 to 10%.

Credit derivatives: 0% to 30% (on iTraxx and CDX indices).

FX: FX strategies can be either a performance driver or a risk management tool.

Finally, the fund's Portfolio Manager, relies on the contributions of the entire Fixed Income investment professionals' team at Carmignac, which is composed of around 20 people, including analysts, economists and portfolio managers.

Current macro-economic trends

As geopolitical risks become more and more localized, we observe the resurfacing of the challenges which the global economy was already facing before the escalation of the Ukraine-Russia war.

At a glance, in the face of increased, persistent and widespread inflation, hawkish central bankers, rising yields, slowing global growth and geopolitical uncertainties the risk of slowflation is more tangible than ever. Given such prospects we have identified three main concerns that have and will continue to affect investors over the coming months.



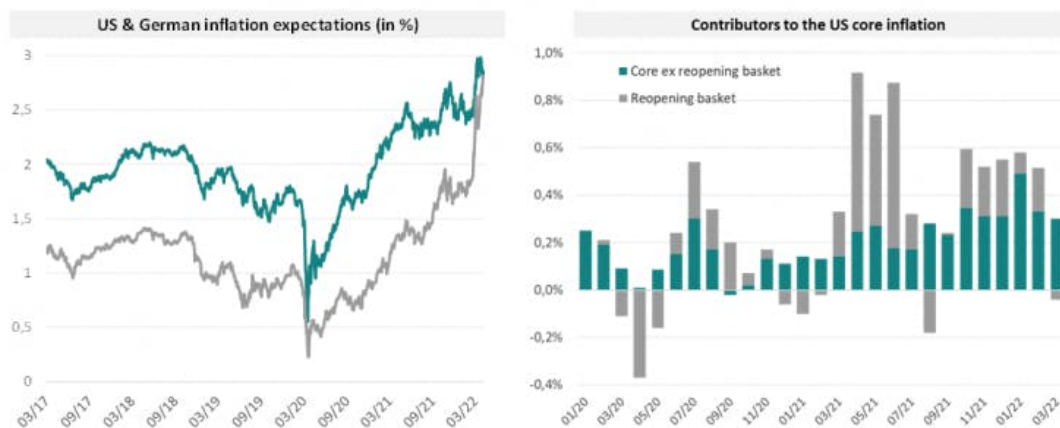
1. We see global inflation become more and more persistent as we go

The past decade was clearly marked by a trend of low global growth and deflationary forces. It is also these deflationary forces that drove most central banks' very accommodative policies, to which we easily got accustomed to. Consequently, in the past decade (ending in 2020-2021), we had on the one hand fixed income markets continuing their bull trend, while on the other hand commodities and certain currency baskets for instance, performed poorly (in relative terms).

This global picture has dramatically changed as of late. What we have witnessed in recent months is that overall inflation has not only increased but also expanded (in terms of affected sectors). It is no longer confined to a few COVID-sensitive sectors but now includes areas and categories in which elevated rates of inflation tend to stick around for longer, hence become more persistent going forward.

On top of which, come cost pressures notably linked to commodity prices and supply chain disruptions resulting from the Russia-Ukraine crisis or the Chinese zero-Covid lockdown policies. These are undoubtedly adding more stress to this already volatile trend.

We now expect inflation to be past peak levels, therefore inflecting, but persistently above the 2% threshold throughout 2022 and into 2023.



Source: Carmignac, Bloomberg, April 2022

So, in a context of rising interest rates but persistently strong inflation, fixed income investors are left with little options in the short run that help to pass through the storm. Certainly, commodities or commodity linked assets (such as selected currency baskets) have so far proven successful.

Market implications: The main takeaway in the current context seems to be the unavoidable hawkishness of the Federal Reserve. In fact, the Fed wants to bring inflation down at any cost. It directly implies, lower growth, hence lower equities, and potentially further widening credit spreads. As a matter of fact, for now, central bankers seem to have made their choice between inflation and growth.

2. The “Commodity Super-Cycle” reflected in currency baskets

As mentioned above, commodities follow ‘super-cycle’ trends which tend to be ‘longer than’, and ‘less related to’ economic cycles. The last commodity super-cycle (2002 – 2008) for instance was mainly driven by demand (the latter fed itself by Chinese economic ‘super growth’ and that of Emerging Market countries more broadly of course).

We are now at the beginning of a new commodity upswing, driven by supply, which has started in our view in 2020 and will most likely drive the new macro-economic regime with notably: stronger inflation and more hawkish central banks (at least in the short run) etc.

And while, the recent geopolitical events have ‘tactically’ strengthened this bull commodity super-cycle, (gas and oil but also agriculture commodities’ prices are a good example, since cereals and fertilizers are among the most exposed to the Russian conflict in Ukraine) – On the longer run, commodities will also be supported by the green revolution. Having said that, currently we remain cautious with regards to the situation in China as the countries zero-covid policy could directly affect demand on commodities and hence prices.

Lastly, in our view, this commodity super-trend should continue put aside any short-term gas and oil price-fluctuations, Chinese slow-down related demand, or surprising developments of the geopolitical order.

Market implications: The Latin American countries for instance, have benefited from the rise of oil and gas but also from "soft commodities" prices (i.e. corn, wheat, soyabeans, etc.) following the disruptions of production in Ukraine, which was one of the largest producers of wheat and corn worldwide. Hence countries such as Brazil, Chili, Colombia, Uruguay, Mexico were positioned among the front-runners.

The first assets to have reacted are in fact currencies which are closely correlated to commodity cycles and highly liquid. Latin American currencies for instance have indeed outperformed other Emerging Markets regions, especially at the peak of the crises (but not limited to this period).

This upturn has profited to the performance of our Carmignac Global Bond fund and strategy thanks to our long positioning in FX strategies during Q1 2022 (whether it be our long positions on commodity related Latin American currencies or our long positioning on the Canadian dollar or our shorts on the Yuan and other related Asian currencies for instance). Note, that we decided to tactically take our profits on our main commodity-linked currencies positions.

3. Geographical dissonance and growth differential

The macro-economic horizon is not looking exactly similar for each of the main economic blocks and regions whether it be in terms of growth prospects, inflation forecasts or monetary policies.

And while the Q1-2022 is making bond market history with notably the largest quarterly increase for the US 2-year Treasury yields, most Emerging Market countries are on the other hand giving hints of an ending hiking cycle.

In that sense, central banks in Latin America for instance were the first ones to end monetary easing as soon as Q1 2021. This perspective on the current level of yields and the path for interest rates going forward is an additional support for local assets on the mid to long-term (the first one being in our view commodities).

Inflation is yet another example of continued desynchronization (but also closely linked to global growth and central banks policies). We notice that inflation in Asian countries for instance (or even in other regions of the world, such as Israel) remains relatively low. And while we still believe that global inflation will “pinch on” global growth prospects, it is also clear that the story varies somehow from country to country.

Finally, GDP numbers and forward-looking prints, also seem to contrast.

On one hand, the United States and Canada are still posting decent growth figures (although on a slowing trend);

Europe remains very fragile and ‘commodity-prices-dependent’ and therefore paying the highest toll in terms of consequences from the Russian invasion of Ukraine;

Lastly, China is once again hit by a large scale close-down as Omicron infections skyrocket which would certainly impact its growth forecasts going forward with the very disappointing recent PMI figures published in China. It also raises some questions on up-coming “deja-vu” supply chain bottlenecks.

Positioning & Performance drivers

Where does it leave us in terms of positioning? Our current positioning is in line with the above identified trends.

Rising real rates reaching toppish levels in developed countries

Real rates are on a strong upward trend in developed markets (although these still remain rather low). For that reason, we have increased the interest rate sensitivity in countries where the hiking cycle is well anticipated by the market or where real rates have gone up already (i.e. Brazil, Mexico or even in the US for instance). As of today, the overall interest rate sensitivity of the fund is around 2.70.

In addition, we note that in the current context of monetary policy normalization and rising interest rates in developed markets, the US curve continued to flatten during the first quarter of 2022. We believe that

a lot has been priced by the short end of the curves already hence we see the steepening-move to continue going forward.

Low inflation countries

Inflation has not hit all geographies with the same ferocity. For instance, the return of Covid-related disruptions in China and the lockdowns are rather deflationary. We are therefore long Malaysian bonds or even Israeli sovereign debt where inflation seems to be tied down.

Global Growth Slowdown

Against the backdrop of slowing global growth and growing concerns on risky assets' valuations, we are almost fully hedged on our corporate credit exposure. We believe that the credit spreads may widen further.

We have therefore increased our Xover protection during Q1 22 as we believe that current levels could still price some additional slowing growth. We nonetheless remain alert to identify the right momentum and introduce credit exposure in our portfolio.

While we remain fully hedged on the beta, we still count on the potential alpha of our credit selection on: whether it be CLOs, financials or energy names.

Commodity Super-Cycle

We are still long commodity currencies such as CAD (Canadian dollar) although to a lesser extent than in the previous months VS. Asian currencies that are commodity importers (i.e. Philippines, China, India).

In conclusion, currencies remain in this context one of the main sources of alpha while waiting for the right moment to start adding other high beta assets (especially corporate credit).

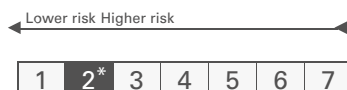
A global and flexible approach to Fixed Income markets

[Discover the fund page](#)

Carmignac Portfolio Global Bond A EUR Acc

ISIN: LU0336083497

Recommended
minimum
investment horizon



Main risks of the Fund

CREDIT: Credit risk is the risk that the issuer may default.

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

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.

DISCRETIONARY MANAGEMENT: Anticipations of financial market changes made by the Management Company have a direct effect on the Fund's performance, which depends on the stocks selected.

The Fund presents a risk of loss of capital.

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 for any other purposes. The information contained in this material

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 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.

In the United Kingdom: the Funds' respective prospectuses, KIDs 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.

