

CARMIGNAC ABSOLUTE RETURN EUROPE: LETTER FROM THE FUND MANAGERS

16/04/2024 | DEAN SMITH, JOHAN FREDRIKSSON

*Over the first quarter of 2024, **Carmignac Absolute Return Europe** realized a positive performance of +4.95%.*

MARKET COMMENTARY

After a strong year-end rally in 2023, markets came into 2024 screening overbought. Subsequently a stronger than expected US inflation print in January, drove a sudden reversal of bond markets with yields quickly rising from the December lows, which in turn, catalysed a quick rotational correction in European equities with cyclicals giving back some of their Q4 gains and underperforming defensives by more than 5%.

From a macro standpoint the dominant theme through the quarter was the timing of Fed interest rate cuts being repriced, shifting from March to June and at time of writing even putting July in question. In Europe, by contrast CPI readings have continued to be more supportive to a cut with the first one anticipated to come in June. Despite US rate cuts being 'pushed out', market seems to be taking this in its stride as it is being accompanied by increasing evidence that the US economy remains robust and a number of the leading indicators including PMI's and Zew survey (EU) are showing sequential improvement at the same time as inflation data although hotter than expected is still trending down. **This backdrop has created a positive environment for equity markets which now increasingly looks to price a benign 'Goldilocks' soft landing scenario which has continued through Q1 and driven the market rally.** Within Europe during Q1, cyclicals outperformed defensives with the best performing sectors being Autos, Technology, Banks and Industrials while the main laggards were Basic Resources, Utilities and Real Estate.

PERFORMANCE COMMENTARY

The fund produced a positive return of +4.95% net of fees and since taking over the management of the fund in September last year, we are pleased to report 6 consecutive months of positive investment returns, putting us well on track to achieve our long-term objectives (10-12% pa performance net of fees).

As we continue to gain evidence that our investment process is working well, we recently begun as per our plan to increase the size of the funds gross exposure by increasing position sizes across both our long and short positions. Our gross exposure has now gone up from around 100% to apr.135%. Our net exposure was gradually increased throughout the period to around the mid 20's%, but it remains a moving target depending on how we navigate risk from one week, month to another. Our typical range for our adjusted net exposure during the period has been 20-30%.

At the stock level, with growing confidence in a more constructive backdrop to the market we continued to add to our positions in technology, consumer discretionary and banks. Within technology we have continued to build on the theme of AI beneficiaries. We've added to our existing semiconductor positions, including AI and more recently added new positions in manufacturers of processors and memory, essential for the operation of the AI models along with software beneficiaries.

In consumer discretionary we added to low-cost airlines where we believe the backdrop of short haul pricing is likely to continue to surprise the market to the upside. The EU short haul market continues to be very tight given the ongoing delays for new airplanes being delivered to airlines (Boeing's issues). This continues to drive higher airfares, which in turns will give rise to further earnings upgrades against share prices which are still trading significantly below their pre Covid valuations. Similarly, we believe the stock market is pricing in an overly conservative outlook for Autos against their much too low valuations. Also, both these sectors are deep value which is a factor we want to add exposure to.

Profits were taken in some of our luxury goods names which have performed well and now face slowing growth with difficult year on year comparable. However, once we are through the H1 period, comps again get easier and we would look to add back exposure on the long side, possibly as soon as after / during the Q1 reporting season. Elsewhere we added to retail banks where we see opportunities in names with still too low valuations and with surplus capital that will be returned to shareholders. Across the industrial sectors we added to long cycle businesses with strong order books in areas such as Aerospace.

Whilst it has been very important to ensure that we got our long book stock selection right, it has been equally important to carefully manage our short stock portfolio in rising market and at a time of potential economic inflections, making sudden burst of short squeezes potentially very costly. We have reduced or covered a number of cyclical shorts positions to protect the portfolio against unnecessary losses but will certainly look to revisit these later in the year.

Within the portfolio the largest positive returns YTD have come from technology, banks, consumer discretionary, industrials and healthcare. The main detractors at the sector level were Utilities, Real Estate and Staples with small losses.

Winners:

- Nvidia: Long-Significant earnings beat and strong order growth for the world leader in chips to power AI.
- Prada: Long-earnings ahead of expectations with margin improvement confirming successful restructuring and turnaround for this iconic luxury brand.
- Micron: Long-Memory cycle reaccelerating after an 18 month down cycle with strong orders for AI applications.
- Novo Nordisk: Long-Positive earnings revisions from GLP-1 weight loss drugs and new applications for Seraglutamide.
- Adyen: Long-Top line recovery after a disappointing q3 report due to scaling up of new customer wins.

Losers:

- Snap: Long-reported advertising growth below expectations.
- Norwegian industrial: Short-short covering rally for industrial stock with challenged fundamentals.
- Telecom Italia: Long -disappointing guidance on cash generation at capital markets day.
- Prudential: Long-Negative sentiment towards China exposed businesses, Asian growth slower than expected.
- Puma: Weak demand and inventory correction in the global sports shoe market.

OUTLOOK

As stated with our monthly update last week, the early part of April is expected to be relatively quiet from a corporate news flow stand point, and instead most of the focus will be on the macro, political developments (middle east, and particularly any potential impact on oil prices) & various Fed speaker commentary. The ongoing debate on rates and inflation expectations continue to dominate with macro data being mixed. Indeed, with the most recent soft macro data having surprised to the upside, Fed rate cut expectations continues to be pushed out. Therefore, this week's CPI print will probably mark the most important data point for the Fed YTD. Should we yet again get a 'hotter' inflation print for March, the risk is that the market will quickly push out Fed cuts even further and fueling the debate to whether we get any cuts at all this year?

But very soon the attention will swiftly again shift back to corporate earnings and the key question most investors will be asking is whether momentum can continue to deliver. We have already seen some stalling of Technology and the Nasdaq itself losing relative performance over the last month, and the question is, if this is just an 'air pocket' or the start of new leadership emerging and a more sustainable broadening out of the market? The argument for the latter would be that the macro data (PMI's, employment etc.) continues to improve, with the economies around the world slowly improving.

However, even if the top-down macro picture is giving us ‘hints’ of improving economic activity, which in turn is beginning to drive relative performance of value and cyclical (especially in EU), we now need to closely monitor whether corporate earnings / forward expectations commentary of those companies can ‘accompany’ and support that performance? Have these sectors ‘travelled too far too soon’, without giving us the earnings revisions the market might now be pricing? In our view, the Banks, Chemicals & Autos are likely to deliver enough in Q1 to support ongoing performance and we continue to be weighted accordingly. In addition, all eyes are now firmly back on China. China’s PMIs have also started to show signs of improvements. Therefore, taking all this into account, especially considering how most global investors are still very narrowly positioned to a few selective sectors, (Tech, Quality growth etc.) we think it is sensible to start selectively broadening out our exposure to a more balanced and ‘bar-belled’ portfolio. In part, as our regular readers will know, we do already have decent exposure to Value & Cyclical in our book (which is already contributing to our YTD performance, through Banks, Cyclical chemicals, Airlines, and deep value Autos. And to us, the question is now whether we continue to add to these sectors? The decision to do that will be dependent on the upcoming macro news unfolding on inflation expectations and above all, Q1 corporate earnings. In addition, as per usual during Q2 we will be spending quite a bit of time meeting with corporates at various upcoming conferences. Usually these meetings prove to be very timely and valuable in terms to how to balance the risk of the portfolio and individual stock positions into the usually trickier to navigate months during the summer. Expect us to comment more on this In upcoming monthly letters.

However, not to confuse any of our readers, **we still very much believe in the structural stories within Tech, AI & semis in particular, which continues to make up our single largest core Long exposures.** In addition to AI linked stock positions, we have continued to increase our longs in memory names. We firmly believe that the amount of compute required, not only into the cyclical upturn in the sector, but above all due to the structural drivers will be enormous. As such, even if several of these stocks have done v well YTD, we continue to see material upside from here. And we believe that the news flow will not only be supportive, but that earnings upgrades will accelerate. We continue to believe that the current environment provides a fertile hunting ground for long short investors.

Clasificación SFDR** :

Clasificación SFDR 8



Duración mínima recomendada de la inversión

3 AÑOS

PRINCIPALES RIESGOS DEL FONDO

RIESGO RELACIONADO CON LA ESTRATEGIA LONG/SHORT: Este riesgo está relacionado con las posiciones compradoras o vendedoras iniciadas a fin de ajustar la exposición neta al mercado. El Fondo podría incurrir en pérdidas cuantiosas si sus posiciones largas y cortas evolucionasen de forma simultánea en sentido contrario y de manera desfavorable.

RENTA VARIABLE: Las variaciones de los precios de las acciones cuya amplitud dependa de los factores económicos externos, del volumen de los títulos negociados y del nivel de capitalización de la sociedad pueden influir negativamente en la rentabilidad del Fondo. **TIPO DE INTERÉS:** El riesgo de tipo de interés se traduce por una disminución del valor liquidativo en caso de variación de los tipos de interés. **TIPO DE CAMBIO:** El riesgo de cambio está vinculado a la exposición, por medio de inversiones directas o de instrumentos financieros a plazo, a una divisa distinta de la divisa de valoración del Fondo.

El fondo no garantiza la preservación del capital.

* *Escala de riesgo del KID (Documento de datos fundamentales). El riesgo 1 no implica una inversión sin riesgo. Este indicador podría evolucionar con el tiempo. **

GASTOS

Costes de entrada : 4,00% del importe que pagará usted al realizar esta inversión. Se trata de la cantidad máxima que se le cobrará. Carmignac Gestion no cobra costes de entrada. La persona que le venda el producto le comunicará cuánto se le cobrará realmente.

Costes de salida : No cobramos una comisión de salida por este producto.

Comisiones de gestión y otros costes administrativos o defuncionamiento : 2,30% del valor de su inversión al año. Se trata de una estimación basada en los costes reales del último año.

Comisiones de rendimiento : 20,00% max. del exceso de rentabilidad cuando la rentabilidad sea positiva y el valor liquidativo supere la cota máxima o «High-Water Mark». El importe real variará en función de lo buenos que sean los resultados de su inversión. La estimación de los costes agregados anterior incluye la media de los últimos 5 años, o desde la creación del producto si se produjo hace menos de 5 años.

Costes de operación : 0,98% del valor de su inversión al año. Se trata de una estimación de los costes en que incurrimos al comprar y vender las inversiones subyacentes del producto. El importe real variará en función de la cantidad que compremos y vendamos.

RENTABILIDADES ANUALIZADAS (ISIN: FR0010149179)

Rentabilidades anuales (en %)	2014	2015	2016	2017	2018
Carmignac Absolute Return Europe	+2.5 %	-8.0 %	+8.9 %	+14.6 %	+4.4 %

Rentabilidades anuales (en %)	2019	2020	2021	2022	2023
Carmignac Absolute Return Europe	-1.3 %	+5.2 %	+12.6 %	-6.4 %	+0.0 %

Rentabilidades anualizadas	3 años	5 años	10 años
Carmignac Absolute Return Europe	+1.2 %	+2.9 %	+3.1 %

Fuente: Carmignac a 30 abr. 2024.
Las rentabilidades históricas no garantizan rentabilidades futuras. La rentabilidad es neta de comisiones (excluyendo las eventuales comisiones de entrada aplicadas por el distribuidor)

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Para España : Los Fondos se encuentran registrados ante la Comisión Nacional del Mercado de Valores de España, con los números : Carmignac Sécurité 395, Carmignac Portfolio 392, Carmignac Patrimoine 386, Carmignac Long-short European Equities 398, Carmignac Investissement 385, Carmignac Emergents 387, Carmignac Credit 2025 1947, Carmignac Euro-Entrepreneurs 396, Carmignac Court Terme 1111.

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