QUARTERLY REPORT

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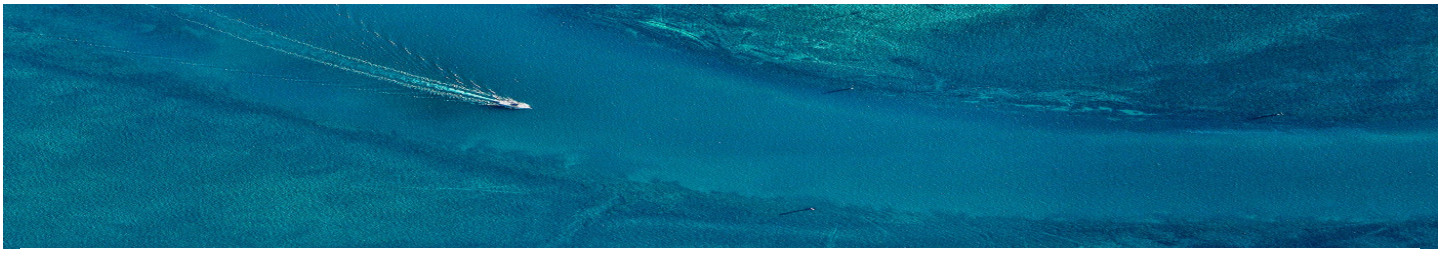

Carmignac Global Bond: Letter from the Fund Manager

Author(s)
Abdelak Adjriou

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Len

-1.60%

Carmignac P. Global Bond (A Euro Acc)

during the 4th quarter of 2022

-4.78%

Reference indicator's performance

in the 4th quarter of 2022 for JP Morgan GBI Global (EUR)

+6.33%

Outperformance of the fund

during the year versus its reference indicator.

Carmignac Portfolio Global Bond *was down 1.61% (class A shares) in the fourth quarter of 2022, but it considerably outperformed its reference indicator (JP Morgan Global Government Bond Index (EUR)), which lost -4.68%.*

The bond markets today

The fourth quarter closed out a year marked by volatility in all asset classes. Inflation was again the focus of attention over the past three months, with everyone wondering whether it had or had not peaked.

It clearly had in the US, where headline inflation turned the corner in late June followed by core inflation in late September. That paved the way for the US Federal Reserve to scale back its rate hikes from 75 bp to 50 bp. Yet the central bank is still treading carefully given the resilience of the US job market. With the Fed being forced to navigate between falling inflation and steeply rising wages, investors now expect its terminal rate to end up at around 5%. It was a different story in Europe. Even though energy prices retreated – Brent crude and European natural gas were down 33% and 75%, respectively, from their 2022 highs – the war in Ukraine still drove up consumer prices. Core inflation in the eurozone ended the year at record highs. This prompted the ECB to ramp up its monetary tightening with a 75 bp rate hike in November and a 50 bp one in December, bringing its policy rate to 2% at year-end. In addition, President Lagarde said at the ECB's December meeting that a round of quantitative tightening would begin in early March, to the tune of €15 billion per month, and that additional 50 bp rate hikes were on the cards for 2023, suggesting a terminal rate of around 3.5%.

Other surprises were also in store in Q4. The Bank of Japan (BoJ) widened the range in which the yield on 10-year Japanese bonds is allowed to fluctuate, increasing it from +/–25 bp to +/–50 bp at end-December, and Beijing decided to open China back up sooner than expected. The BoJ's move will put upwards pressure on sovereign bond yields, while Beijing's will be a boon to global economic growth.

Short-term US Treasury yields were largely flat over the quarter but long-term yields – even though they ended Q4 close to where they began – fluctuated substantially between 3.5% and 4.5%. The yield on 2-year German Bunds jumped 80 bp and that on 30-year Bunds rose 55 bp.

In the forex market, the USD index dropped 8% in the quarter on the back of narrowing interest-rate differentials between the US and G10 countries and improved trade balances outside the US as a result of falling energy prices. EUR was up 12% from its 2022 low, and JPY was up 14%. Credit spreads in Europe and the US came down from their record highs, retreating 250 bp and 175 bp, respectively. The same trend was seen in credit spreads in emerging markets.

Fund performance

Carmignac Global Bond lost ground in Q4 but performed sharply better than its reference indicator. The fund held up well despite the challenging climate for fixed income thanks in large part to how we managed our modified duration. We raised it to around 5 in November (based on G10 interest rates) but then lowered it to 2.5 ahead of the various central bank meetings in mid-December. Our investments in corporate bonds and hard-currency emerging market debt – positions we increased starting in November – also contributed to performance as spreads narrowed during the quarter. Our absolute return was impacted primarily by our USD exposure, but because we are underweight USD relative to the reference indicator, and thanks to our selection of other currency holdings, we outperformed the indicator in the forex market.

Outlook

As we head into 2023, our portfolio is positioned for US interest rates to stabilise further and continue the trend started in late 2022. We're cautious on Europe given that inflation there is still high and a record volume of bond issues is scheduled in the currency bloc in 2023.

Expectations for the timing of a US recession have been pushed back to late 2023, given that China has opened up earlier and more broadly than expected and the latest macroeconomic readings were sanguine in both the US and Europe. We have therefore positioned our fund in risk assets like corporate bonds and hard- and local-currency EM debt.

In forex, we have low exposure to USD and are invested mainly in high-beta currencies with attractive carry and significant rebound potential. These currencies include the Brazilian real, Mexican peso, and Israeli shekel.

Source: Carmignac, Bloomberg, 30/12/2022. Performance of the A EUR Acc share class ISIN Code A EUR Acc : LU0336083497. [1]Reference Indicator: JP Morgan GBI Global (EUR).

Carmignac Portfolio Global Bond

A global, flexible and macroeconomic approach to fixed income markets

Discover the fund page

Carmignac Portfolio Global Bond A EUR Acc

ISIN: LU0336083497

Lower risk Higher risk

Potentially lower return Potentially higher return

Recommended minimum investment horizon

1	2	3	4*	5	6	7

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.

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