



Carmignac Global Bond: Letter from the Fund Manager



Author(s)
Abdelak Adjriou

Published
January 13, 2023

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.



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

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 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, 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, or upon request to the Management Company.

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

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](#).