Carmignac Global Bond: Letter from the Fund Manager

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+2.38%

Carmignac P. Global Bond (A Euro Acc)

performance during the 1st quarter of 2023

+1.26%

Reference indicator's performance

in the 1st quarter of 2023 for JP Morgan GBI Global (EUR)

+1.12%

Outperformance of the fund

during the year versus its reference indicator.

***Carmignac Portfolio Global Bond** was up by +2.38% (class A shares) in the first quarter of 2023, and it outperformed its reference indicator (JP Morgan Global Government Bond Index (EUR)), which delivered +1.26%.*

The bond markets today

Bond markets were very volatile in Q1 2023. We could divide the quarter into three different phases:

January was dominated by the soft-landing story with encouraging disinflation numbers in the US and with no recession priced in. Rates in the US dropped 30 bp and credit markets outperformed with spreads tighter by 50 bp. China reopening also sustained emerging markets with higher commodity prices (oil and copper).
February was the complete opposite with the same dynamics that we saw last year. Strong job markets and higher inflation surprises pushed yields and credit spreads higher. Financial conditions tightened with market pricing a terminal rate closed to 6% in the US and 4% in the Eurozone. Chinese data were still weak, and markets started to be impatient about the reopening effects.
March was the classical risk off environment with the collapse of SVB bank and followed by the merge of Credit Suisse and UBS. The SVB bank failure has pushed the Fed to revise the well telegraphed 50 bp hike by 25 bp. Credit markets deepened. The Credit Suisse collapse penalized AT1 holders and the banking sector overall. Government bonds were the winners with US rates dropping by more than 50 bp.

The failure of the regional US banks in Q1 2023 signalled the end of the bear bond cycle. In fact, Fed rate cutbacks are now priced for as early as this summer. As a result of the issues at Silicon Valley Bank, Signature, and Credit Suisse, there is now considerable uncertainty around the banking sector, which has only increased demand in money market funds that pay out more than bank deposits. If such bank withdrawals persist, a banking crisis can develop further. Europe has proven to be more resilient, so the ECB remains hawkish. Core inflation dynamics are still uptrend. Data are rebounding with commodity prices collapsing which helped the euro to outperform.

Fund performance

Carmignac Portfolio Global Bond generated a positive return in the first quarter. The three sources of performance (duration, currencies, and credit) contributed positively. We took advantage of the interest rate fall and the rally of the Emerging market currencies. Government bonds in the US, Canada and Germany were the biggest contributors. For the currency markets, Latam currencies (Mexican Peso, Brazilian Real, Chilean Peso) and the Indonesian Rupiah benefited from the China reopening and the high real rates those countries are giving. Our credit positioning also contributed positively thanks to CLOs (Collateralized Loan Obligations).

Outlook

We still believe that the recession is coming in the US this year. The bank regional crisis is telling us that the Fed has over hiked, and the recession is near. The banks will have to tighten their credit conditions and slow the financing of the real economy.

Inflation is the last shoe to fall with the job market still strong. We expect that the job market should start to suffer with tighter financial conditions and allow the inflation coming down. The housing market and the manufacturing sector are already in recession territories. The service sector is still holding thanks to the excess savings coming from the government checks, but we expect them to be near zero at the end of this year.

The positioning is in line with this economic deterioration. The fund positioning is defensive. We have increased our duration and our core government bonds exposure. We have bought credit protection to neutralize the credit book. In the FX markets we are long the yen and the Swiss franc that should outperform in the recession context. We have low exposure to the dollar because we don't think it will protect the fund as the recession will come first from the US. We have reduced our exposure to Latam currencies after a strong first quarter and because they might suffer in this context.

Source: Carmignac, Bloomberg, 31/03/2023. 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

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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.

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.

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.

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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.
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