



Carmignac Sécurité : Letter from the Fund Manager




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Length

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+0.25%

Carmignac Sécurité's performance

in the 2nd quarter of 2021 for the A EUR Acc share class.

-0.12%

Reference indicator's performance

in the 2nd quarter of 2021 for ICE BofA ML 1-3 years Euro All Government Index (EUR).

+0.55%

Performance of the Fund Year-to-Date

versus -0.36% for the reference indicator

Quarterly performance review

Financial markets became a good deal harder to fathom in the second quarter of the year. Expectations for a vigorous global economic upswing – buoyed by the prospect of economic re-opening as vaccination campaigns gained traction and central banks let inflation overshoot their targets – had driven interest rates up in the first quarter. But that trend had reversed by late March in the United States and mid-May in the eurozone.

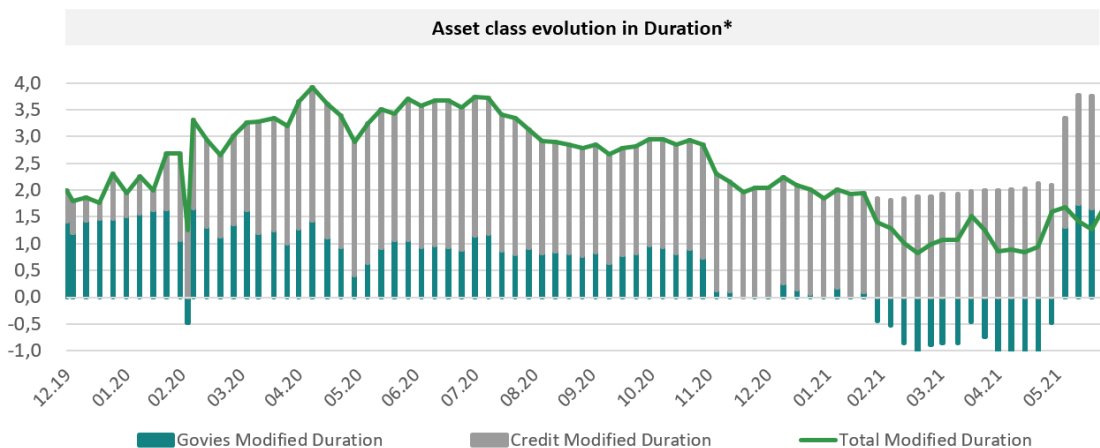
There were several factors behind that reversal. For starters, US employment data came in well below economists' forecasts, while US and Chinese inflation surprised to the upside. In addition, **the less dovish stance adopted by the Federal Reserve (Fed) caught the investment community on the back foot, which accentuated the yield-curve flattening under way.** Financial-market participants brought forward their rate-hike expectations (with 2-year Treasury yields gaining 8 basis points during the quarter), and now fear the Fed may get monetary policy wrong, resulting in a sharp slowdown in economic growth (which explains why 30-year yields dropped by 33 basis points over the same period). And though realised inflation has climbed significantly, investors don't believe the trend will continue. **They attribute the current bout of inflation to a combination of catch-up from last-year and supply bottlenecks in a recovery that has taken off too fast.** The most striking example of these bottlenecks is the semiconductor shortage, which has hamstrung the auto industry. Europe's fixed-income markets have channelled those in the US, though with a lag and to a more limited extent. The rise in German bond yields during the first part of the quarter wasn't wiped out after all. The 10-year yield ended the period up 10 basis points at -0.21%¹.

One might have expected such an unintelligible state of play to increase market volatility – usually bad news for credit investors. Except it didn't. Volatility has stayed very low, and thus supported carry strategies, including in corporate bonds. In the euro market, credit spreads for investment-grade issuers tightened by an average of 7 to 8 basis points, with the result that this asset class added capital gains to gains from the carry trade. The more speculative corner of the market did even better during the quarter, with spreads narrowing by some 20 basis points and the European high-yield bond index climbing about 1.45%.

How is the fund positioned?

We substantially reshuffled the Carmignac Sécurité portfolio during the second quarter.

- First, **we upped our exposure to corporate credit** in continuity with the approach we initiated at the end of the first quarter of 2021. Rising yields since the beginning of the year enabled us to hunt down absolute yields offering attractive carry opportunities.
- Second, **we re-introduced Italian government paper into our portfolio starting in mid-May.** At the end of the quarter, the modified duration of our Italian holdings, spanning government and corporate bonds, stood at roughly 1.
- **Our exposure to CLOs (Collateralised Loan Obligations) likewise increased – a first in several quarters.** The primary market offered attractive opportunities in top-rated tranches that moved us to raise that exposure by more than 1 percentage point to about 7.5% of the portfolio.



Source: Carmignac, 25/06/2021
 *Include derivatives

In contrast, **we stuck with our short bias on fixed income in the US and the UK, two economies that are further along in the business cycle than the eurozone.** The Fund's total modified duration at the end of the quarter was approximately 2, up from 1 at the end of March. That higher modified duration enabled us to cushion the impact of the yield reversal that occurred during the period.

What is our outlook for the coming months?

Our portfolio is thus made up of long positions in assets offering good spreads (chiefly corporate credit and Italian bonds), where the interest-rate risk is hedged in part by short positions in British and American sovereigns and by swaps. Even if interest rates were to head back upwards, the increase wouldn't be large enough to put pressure on risk assets. **We believe the major central banks will avoid undermining the economic recovery by acting too fast and/or too vigorously as they did in late 2018.** Late-cycle phases (and we're likely nearing the end of a cycle of extreme monetary-policy easing) are often accompanied by financial-market volatility. That will call for even greater flexibility in how we at Carmignac Sécurité manage our portfolio in the months to come.


Carmignac Sécurité

Access the entire credit spectrum for maximum flexibility

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Carmignac Sécurité A EUR Acc

ISIN: FR0010149120

	2016	2017	2018	2019	2020	2021 (YTD) 
Carmignac Sécurité A EUR Acc	+2.07 %	+0.04 %	-3.00 %	+3.57 %	+2.05 %	+0.69 %
Reference Indicator	+0.30 %	-0.39 %	-0.29 %	+0.07 %	-0.15 %	-0.44 %

	3 years	5 years	10 years
Carmignac Sécurité A EUR Acc	+1.49 %	+0.68 %	+1.69 %
Reference Indicator	+0.03 %	-0.25 %	+0.76 %

Source : Carmignac at 30/09/2021

Carmignac Sécurité A EUR Acc

ISIN: FR0010149120

← Lower risk Higher risk
Potentially lower return Potentially
higher return
investment horizon →

1
2*
3
4
5
6
7

on risks of the Fund

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

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

RISK OF CAPITAL LOSS: The portfolio does not guarantee or protect the capital invested. Capital loss occurs when a unit is sold at a lower price than that paid at the time of purchase.

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.

The Fund presents a risk of loss of capital.

(1) The reference indicator changed on the 02/01/2021 to ICE BofA ML 1-3 Y Euro All Government Index (EUR) before it was the EuroMTS 1-3 years index (EUR).

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