



Our monthly investment review: November 2022



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Let


What a comeback!

In the first ten months of the year, the positive correlation between fixed income and equities (or risk assets more broadly) severely dented investors' returns – but it had the opposite effect in November. European stocks rebounded by nearly 10% over the month and credit spreads tightened by 200 bp, while bond yields dropped by 30–40 bp depending on maturity and region.

Investors were comforted by the fact that inflation appears to have peaked, providing greater clarity on the future trajectory of monetary policy. This dampened the level of volatility on interest rates; and as they become more anchored, other asset prices could return to more normal patterns of behaviour

Good news or bad news?

The “bad news for the economy is good news for the markets” mantra certainly proved true in November. But that wasn't the only factor driving up global markets last month.

What's interesting about the economic readings so far is that it's the soft data and leading indicators (like consumer sentiment and purchasing managers' surveys) that have trended downwards. Hard data (like employment rates and retail sales) are holding firm, underscoring the resilience of the US economy and pointing to a less-severe-than-expected slowdown in Europe.

What's more, the outlook for China improved last month on hopes that Beijing will soon ease its zero-Covid policy and reopen the country's economy. While this was a boon for Chinese stocks, it also lifted the valuations of European companies with significant exposure to China. We can see this in the luxury goods sector and with companies like [L'Oréal](#) that generate a hefty portion of their revenue in China.

Main portfolio movements

The “[wall of worries](#)” may be high and wide, but it can nevertheless be overcome. Astute investors generally look beyond short-term concerns to focus on the more encouraging prospects for the medium term. That’s why we increased the net equity allocation of our [Carmignac Patrimoine](#) fund to its maximum of 50%. The ensuing sharp rebound in global stocks led us to take some profits – the net equity exposure now sits at 25%.

Within equities, we still prefer those companies and sectors best able to withstand an economic slowdown, especially in Western countries where GDP growth rates are expected to turn south. However, we did take profits on some of our holdings in healthcare and consumer staples, as they had already reaped the benefits of their defensive nature.

We began investing in the manufacturing sector (3.7% of the fund’s assets), especially in the US. The firms we selected: 1) are benefiting from the trend towards reshoring supply chains; and 2) already have production capacity in place and, having already been financed, this confers a notable advantage in an environment of high inflation and borrowing costs.

Since near-term market movements will continue to be driven by growth and inflation prospects in the developed world, we believe it’s important to diversify our portfolio by investing in Asia. In addition to Chinese stocks (3% of the fund’s assets), Japanese equities (2% of the fund’s assets) should also get a boost from growing domestic demand and the possible reshoring of production in the country. Another factor making Japan attractive in our view is that many international fund managers have substantially underweighted the country.

We used some of our cash to increase our allocation to fixed income, while keeping our modified duration positive (285 bp) and by taking a long position on inflation-linked bonds, particularly in the US (3.4% of the fund’s assets). The real yield on 2-year US Treasuries now sits at nearly 2%, making for an attractive carry. What’s more, they are expected to perform well should the US economy make a harder landing than expected or if investors adjust their currently optimistic expectations for disinflation.

We lifted all the hedges in our credit book, since the yields on corporate bonds now make them a promising alternative to stocks. Some segments and issuers are offering yields on par with what we can expect from equities over the long term – yet with considerably less risk.

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Carmignac Patrimoine A EUR Acc

ISIN: FR0010135103

Recommended
minimum
investment horizon



Main risks of the Fund

EQUITY: The Fund may be affected by stock price variations, the scale of which is dependent on external factors, stock trading volumes or market capitalization.

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.

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.

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