



Can I still invest in a period of inflation and rising interest rates?

Published

May 4, 2022

Length

🕒 3 minute(s) read

Rising interest rates and prices may be bad news for bonds, but there are ways to protect your capital in circumstances such as these.

Rising energy prices, shortages in many business sectors, the potential for higher wages –**the current environment is ripe for inflation**. Certain central banks, which regulate economic activity, are [considering the steps they could take](#) to limit the surge in prices. These steps could include raising interest rates, which have been kept at very low levels for over a decade.

However, such rises would have implications for the cost of borrowing as well as the valuation of financial assets in general and bonds in particular, which governments and companies use to finance their activities and development by borrowing money in exchange for a return.

In fact, changes to interest rates have a direct impact on bond values, which fall as yields rise, and inflation will eat into investors' real returns, since price rises reduce the actual yield on a bond.

[Find out more about bonds and how they work](#)

So, investors may logically wonder whether it is in their interests to lend their money if real returns, and the value of the securities they hold, are on a downward trajectory. The same question comes up for retail investors with life insurance savings held in euro-denominated funds¹ that invest heavily in bonds.

How can I protect my investment in this context?

First of all, there are specific fixed income products such as **inflation-linked bonds**, which offer investors the advantage of coupons (i.e. interest payments) and a redemption value indexed to inflation. In other words, the interest paid by the borrower, and the capital to be repaid, are tied to inflation, meaning that the investor is protected against price variations.

Moreover, since it allows for opportunities to be identified and securities selected for investment, **active management**² can help to diversify investments, protect against certain risks, and generate performance.

[Learn more about active management](#)

Active management of a portfolio also allows for what is known as “hedging”. Hedging involves selecting suitable financial instruments – usually referred to as **“derivatives”** – that can protect the portfolio against, and sometimes even profit from, fluctuations in prices or yields. For example, it is possible to **offset the adverse effects of inflation** by buying derivatives that take prospective price changes into account.

Investors’ ability to invest their money anywhere in the world means that they can also make the most of differences between geographical regions and/or diversify their risk. Growth momentum can vary widely from one country to the next, so different regions can experience very heterogeneous price and interest rate rises. Meanwhile, companies from what are known as “emerging markets” can offer higher returns because they are deemed higher risk than their European or US counterparts.



Whom can I trust with my savings?

Investing directly in bonds can be difficult for retail investors since the issue value (or nominal value) of a bond can run into the tens, or even hundreds, of thousands of euros. For this reason, it can be **easier to invest via an investment fund**. And yet, it's still important for these funds to be in a position to withstand periods of rising interest rates or prices. Such environments can therefore represent an opportunity for investors to **check the resilience of the funds** in which their money is invested.

At Carmignac, we have the skills – over 50 analysts and portfolio managers worldwide – **and the experience** – our [first bond fund was launched in 1989](#) – **to respond to such challenges**. The ability to effectively manage market risks, such as during the 2008 financial crisis or the COVID-19 crisis of 2020, has been at the heart of Carmignac's management style for a number of years.

This culture of **risk management**, our **independent research** tools, the **convictions** of our international portfolio managers, and the **pooling of ideas** by our various teams represent the **pillars of our active investment approach**. The aim behind this approach is to help our clients achieve their long-term savings goals. We offer a number of investment solutions within the fixed income space through funds with access to all bond types and categories worldwide.

¹A euro-denominated fund is a life insurance vehicle that predominantly invests in government bonds. Such funds tend to offer a capital guarantee, coupled with limited returns. As well as euro-denominated funds, it is possible to invest in units of account. These allow investors to use funds to invest in a range of financial instruments (equities, bonds, real estate, etc.), albeit with a risk of capital loss.

²Active management entails selecting the financial assets (equities, bonds, currencies, etc.) that will generate the best performance in relative terms and buying at the right time. By contrast, passive management involves seeking to follow a stock market index

To discover our fixed income range

[click here](#)



Marketing material

This is marketing material. This document may not be reproduced in whole or in part without the management company's prior authorisation. It is neither an offer to subscribe nor investment advice. The information contained in this article may be partial and could be changed without notice.

