



Carmignac P. Flexible Bond: Letter from the Fund Managers

Author(s)
Guillaume Rigeade, Eliezer Ben Zimra

Published
July 13, 2023

Length
5

-0.05%

Carmignac P. Flexible Bond's performance

in the 2nd quarter of 2023 for the A EUR Share class

+0.20%

Reference indicator's performance

in the 2nd quarter of 2023 for ICE BofA ML Euro Broad index (EUR)

-0.25%

Relative performance of the Fund

over the quarter versus its reference indicator

***Carmignac Portfolio Flexible Bond** shed -0.05% (class A shares) in the second quarter of 2023, slightly underperforming its reference indicator (ICE BofA ML Euro Broad Index (EUR)), which added 0.20%.*

The bond markets today

The second quarter was marked by a challenging market climate for fixed income as yield curves flattened to a considerable extent. While short-term rates had outperformed substantially at the end of Q1 on the back of renewed banking risk, that trend reversed in Q2. This was especially true in the US, where the Federal Reserve was forced to maintain its hawkish tone in the face of resilient consumer spending and a still-overheating job market. US inflation eased further in Q2, coming in at 4% year-over-year in June, and the Fed lifted its full-year forecasts for GDP growth (from 0.4% to 1%) and inflation (from 3.6% to 3.9%). Even though investors were hoping for a pause in the Fed's tightening cycle in June, the central bank's dot plot suggested two more rate hikes are on the cards between now and year-end. Notwithstanding the collapse of First Republic Bank in April, the yield on 2-year US Treasuries rose 77 bp over the quarter, lifted by the prospect of further monetary tightening. However, the yield on 10-year Treasuries added just 37 bp over a similar period.

This trend was even more pronounced in the eurozone where the yield on the 2-year German Schatz gained 51 bp, while that on the 10-year Bund edged up just 2 bp. This differential partly reflects the resilience of eurozone core inflation (i.e. inflation without food and energy prices) which was 5.4% year-over-year in June. That level of consumer price growth means the ECB must maintain its restrictive stance. What's more, Germany has tipped into a technical recession and leading economic indicators are trending downwards, provoking bearish sentiment among market participants, which is also reflected in the nearly flat 10-year Bund yield.

Q2 also saw the latest episode in the recurring US debt-ceiling saga. The government was on track to hit its debt limit in May until the Republicans and Democrats reached a bipartisan deal to raise the ceiling. Although this event triggered a spike in volatility, bond investors' risk appetite generally returned. Credit spreads narrowed: the main CDS index fell 11 bp over the quarter and the iTraxx Crossover index dropped 36 bp.

Asset allocation

We adjusted our asset allocation in Q2 in response to the changing market climate:

We gradually increased the portfolio's modified duration from 5 in early April to 7 at quarter-end primarily through a heavy weighting on the long-dated (10-year) segment of the yield curve. We intend to maintain this positioning: now that the first signs of a slowdown in economic growth are appearing, we have greater visibility on the trajectory of fixed-income markets going forward. We also initiated a short position on Japanese rates in Q2; the record-high core inflation levels in the country will force the new Bank of Japan governor to adopt a more hawkish tone after 25 years of monetary easing.

We plan to maintain our credit-market exposure since the current environment is favourable to carry strategies. Spreads on corporate debt still factor in a default rate that we feel is overestimated, making the prices of this debt attractive. We've therefore kept our positions on European financial debt, high-yield corporate bonds, collateralised loan obligations, and emerging-market debt.

Outlook

We have a constructive outlook on the disinflationary trajectory that various economies look set to follow between now and end-2023. Core inflation is stuck above the 2% target set by the main central banks, but the slowdowns underway in a number of countries – as observed in leading economic indicators – should enable central banks to ease up on their monetary tightening. In the near term, we believe these factors call for a healthy risk appetite in terms of both modified duration and credit exposure. Our modified duration is currently close to its upper bound, as we believe the end of the tightening cycle is at hand. Our preference goes to the intermediate and long-dated segments of the yield curve as they're less volatile and stand to gain the most from slowing economies. With regard to credit exposure, today's climate is a boon to carry strategies like those available in credit: valuations are attractive, consumer spending is holding up, and worries about US regional banks are fading.

In light of the sticky nature of core inflation, we're keeping our long positions on real interest rates and breakeven inflation rates. Central banks could very well be prompted to reconsider their inflation targets, like the ECB did in June.



Carmignac Portfolio Flexible Bond

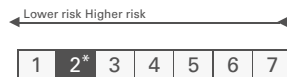
A flexible solution aiming to capture bond opportunities globally

[Discover the fund page](#)

Carmignac Portfolio Flexible Bond A EUR Acc

ISIN: LU0336084032

Recommended
minimum
investment horizon



Main 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.

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.

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.

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 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.

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](#).