

# CARMIGNAC P. EM DEBT: LETTER FROM THE FUND MANAGERS

16/01/2024 | ABDELAK ADJRIOU, ALESSANDRA ALECCI

**+6.12%**

Carmignac P. EM Debt's performance in the 4<sup>th</sup> quarter of 2023 for the FW EUR Share class.

**+3.79%**

Reference indicator's performance in the 4<sup>th</sup> quarter of 2023 for JP Morgan GBI – Emerging Markets Global Diversified Composite Unhedged EUR Index.

**+5.53%**

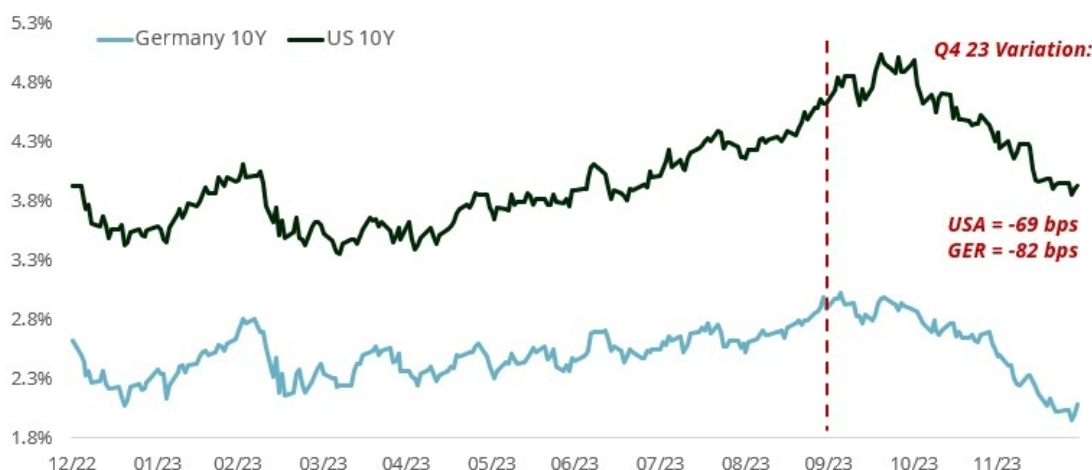
Annualized performance versus +1.26% for the reference indicator since launch (31/07/2017).

*Carmignac P. EM Debt* gained +6.12% in the fourth quarter of 2023, while its reference indicator<sup>1</sup> rose by +3.79%. Over 2023, the Fund realized a positive performance of +15.26% versus +8.89% for its reference indicator<sup>1</sup>.

## MARKET ENVIRONMENT

The fourth quarter of 2023 has been characterized by a strong rally of global rates and a volatile environment. Indeed, having completed their rate hikes, both the Federal Reserve (Fed) and the European Central Bank (ECB) are now in a position where they can take a pause and assess the impact of their previous monetary policy tightening. Developed country yields eased sharply over the quarter, with the German Bund falling from 2.84% to 2.02% and the US 10-Year from 4.57% to 3.88%, after hitting the 5% level for the US. Regarding commodities, crude oil prices continued to decline, with Brent and WTI close to \$75/b. Doubts about the credibility of OPEC+ production cuts and continued increased supply have contributed to the drop, which helps to allay fears of a spike in oil prices by 2024.

## GERMANY AND US 10-YEAR RATES EVOLUTION



Sources: Carmignac, Bloomberg, 31/12/2023

**In terms of local rates**, we continue to see rate cuts in the emerging market (EM) universe this quarter, both in LATAM and in EMEA, including Hungary (-75 basis points), Chile (-75 basis points), Brazil (-50 basis points) and Peru (-25 basis points), but also new joiners such as Czech Republic (-25 basis points) and Colombia (-25 basis points). Although inflation remains above central bank targets for the time being, it is continuing to slow convincingly. Indeed, the disinflation process in EM is very powerful and central banks are expected to continue their rate-cutting cycles. In China, the disappointing reopening continues to linger. Country's activity is stabilizing but at low levels and investors grew more pessimistic about the country's economic outlook.

## GBI-EM INDEX (LOCAL SOVEREIGN DEBT INDEX) - YIELD EVOLUTION



Sources: Carmignac, Bloomberg, 31/12/2023

Furthermore **on FX**, EM currencies continued to attract investors. Commodity exporter and high carry currencies like those in Latin America remained appealing. Nevertheless, a selective approach is still required, keeping an eye out for balance of payments and inflation trajectories. As an example, in Brazil the trade surplus is currently near historic highs and it has the highest real yield in the world close to 6%. Note that as the FED ended its hiking cycle, we should see downward pressure on the USD over the coming months, which should benefit to EM FX.

**On sovereign credit**, EM spreads tightened sharply during the quarter. Spreads are currently near historical tightness especially in the investment grade space. The same is true for spreads in countries that have not defaulted or that are not at risk of default and the market kept a close eye on special situations such as in African countries.

## J.P MORGAN EMBIG DIVERSIFIED HEDGED EURO INDEX (EXTERNAL SOVEREIGN DEBT INDEX) - SPREAD



Sources: Carmignac, Bloomberg, 31/12/2023

## WHAT HAVE WE DONE IN THIS CONTEXT?

After being very long in terms of duration, close to 800 basis points, and therefore benefiting from the rally in rates, we decided to reduce it close to 350 basis points. In this context, **the fund has benefited from its exposure to local rates** in countries like Czech Republic, Mexico, Colombia, Brazil, Peru and South Africa.

**In the FX space we continue to enjoy the strong carry of EM FX currencies over the quarter.** Nevertheless on a risk management basis, we reduced our exposure to EM currencies and we continue to be selective and active in this segment. As an example, at the end of the quarter we reinforced our exposure to the Japanese yen and the US dollar while taking some profits on our LATAM currencies such as the Brazilian real, Chilean Peso and Mexican Peso.

**On sovereign credit**, we benefited from our exposure to the EMEA and LATAM regions, in particular through Mexico, Colombia Romania and Egypt. Nevertheless, we reduced our exposure to this external debt over the period, following the rally and the expensive valuations.

## OUTLOOK FOR THE NEXT MONTHS

We are in the process of significant disinflation from the very high levels seen in the middle of last year in both the US and the Eurozone. Even if the Fed and ECB disappoint market expectations, we see there is an asymmetric potential for returns. We expect a very good year for EM returns given our base case scenario of either stability in yields or monetary easing.

**In Local Rates**, we are closely monitoring EM Central banks to pursue their cutting cycles as the FED and ECB have paused. We continue to like countries such as Brazil (due to commodities), Mexico (a key beneficiary of manufacturing diversification away from China) where real interest rates remain very high. For emerging markets debt denominated in local currency, yields in countries such as Brazil and Mexico are close to 10%.

**In Sovereign Credit**, we continue to favour idiosyncratic higher yielding stories and countries that will benefit in the long term from the "nearshoring" phenomenon, i.e. the potential repatriation of production chains to closer and more stable countries (Romania, Mexico, etc.). Nevertheless, we remain cautious and have added protection against our HY names.

Lastly, although we have reduced our global exposure to EM FX, **we continue to favour a selection of currencies on a tactical/opportunist basis mainly in LATAM** such as the Brazilian real.

Sources: Carmignac, Bloomberg, 31/12/2023.

<sup>1</sup>JP Morgan GBI – Emerging Markets Global Diversified Composite Unhedged EUR Index. Performance of the FW EUR acc share class.

SFDR - Fund Classification\*\* :

Article 8



Recommended minimum investment horizon **3 YEARS**

## MAIN RISKS OF THE FUND

**EMERGING MARKETS**: Operating conditions and supervision in "emerging" markets may deviate from the standards prevailing on the large international exchanges and have an impact on prices of listed instruments in which the Fund may invest. **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. **CREDIT**: Credit risk is the risk that the issuer may default.

**The Fund presents a risk of loss of capital.**

\* \*\*Risk Scale from the KID (Key Information Document). Risk 1 does not mean a risk-free investment. This indicator may change over time.

\*\*The Sustainable Finance Disclosure Regulation (SFDR) 2019/2088 is a European regulation that requires asset managers to classify their funds as either 'Article 8' funds, which promote environmental and social characteristics, 'Article 9' funds, which make sustainable investments with measurable objectives, or 'Article 6' funds, which do not necessarily have a sustainability objective. For more information please refer to <https://eur-lex.europa.eu/eli/reg/2019/2088/oj>.

## FEES

**Entry costs** : We do not charge an entry fee.

**Exit costs** : We do not charge an exit fee for this product.

**Management fees and other administrative or operating costs** : 1,05% of the value of your investment per year. This estimate is based on actual costs over the past year.

**Performance fees** : There is no performance fee for this product.

**Transaction Cost** : 0,57% of the value of your investment per year. This is an estimate of the costs incurred when we buy and sell the investments underlying the product. The actual amount varies depending on the quantity we buy and sell.

## ANNUALISED PERFORMANCE (ISIN: LU1623763734)

Calendar Year Performance (as %)	2017	2018	2019	2020
<b>Carmignac Portfolio EM Debt</b>	<b>+1.1 %</b>	<b>-10.0 %</b>	<b>+28.9 %</b>	<b>+10.5 %</b>
Indicateur de référence	+0.4 %	-1.5 %	+15.6 %	-5.8 %

Calendar Year Performance (as %)	2021	2022	2023
<b>Carmignac Portfolio EM Debt</b>	<b>+3.9 %</b>	<b>-9.0 %</b>	<b>+15.3 %</b>
Indicateur de référence	-1.8 %	-5.9 %	+8.9 %

Annualised Performance	3 Years	5 Years	Since launch
<b>Carmignac Portfolio EM Debt</b>	<b>+2.5 %</b>	<b>+8.0 %</b>	<b>+5.2 %</b>
Indicateur de référence	+0.9 %	+0.7 %	+1.1 %

Source: Carmignac at 30 Apr 2024.

Past performance is not necessarily indicative of future performance. Performances are net of fees (excluding possible entrance fees charged by the distributor).

**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](http://www.carmignac.com), or upon request to the Management Company. 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](http://www.carmignac.com), or upon request to the Management Company.
- **In the United Kingdom:** the Funds' respective prospectuses, KIIDs and annual reports are available at [www.carmignac.co.uk](http://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](http://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](#).