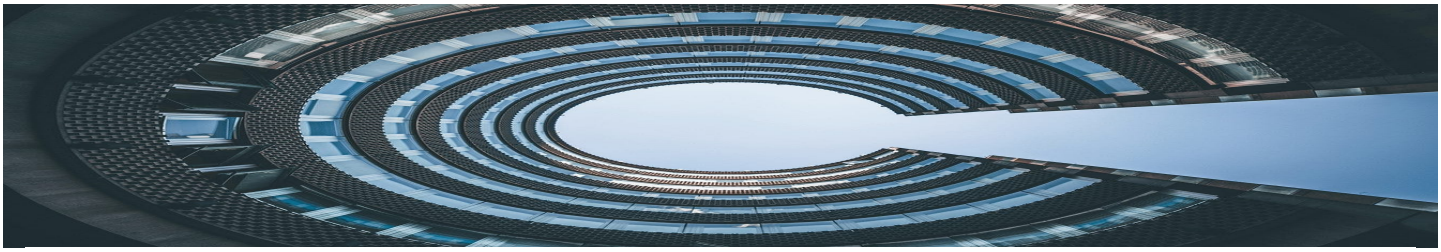

Our monthly investment review: November 2022

Author(s)
Kevin Thozet

Published
December 9, 2022

Le

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.

To read our latest analyses

Carmignac Patrimoine A EUR Acc

ISIN: FR0010135103

Recommended minimum investment horizon

Lower risk Higher risk

1	2	3*	4	5	6	7

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.

This is a marketing communication. For professional investors only. Please refer to the KIID/prospectus of the fund before making any final investment decisions.

It is published by Carmignac Gestion S.A., a portfolio management company approved by the Autorité des Marchés Financiers (AMF) in France, and its Luxembourg subsidiary Carmignac Gestion Luxembourg, S.A., an investment fund management company approved by the Commission de Surveillance du Secteur Financier (CSSF), pursuant to section 15 of the Luxembourg Law of 17 December 2010. "Carmignac" is a registered trademark. "Risk Managers" is a slogan associated with the Carmignac trademark. This document does not constitute advice on any investment or arbitrage of transferable securities or any other asset management or investment product or service. This material may not be reproduced, in whole or in part, without prior authorisation from the Management Company. The information and opinions contained in this document do not take into account investors' specific individual circumstances and must never be interpreted as investment, accounting, legal or tax advice. Taxation depends on the situation of the individual. 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 because 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. Risk Scale from the KIID (Key Investor Information Document). Risk 1 does not mean a risk-free investment. This indicator may change over time. The recommended investment horizon is a minimum and not a recommendation to sell at the end of that period. 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 KIID (Key Investor Information Material). The prospectus, KIID, the net asset-values and the latest (semi-) annual management report may be obtained, free of charge, in** French, English, German, Dutch, Spanish, Italian,**from the management company**.**The KIID must be made available to the subscriber prior to subscription. The subscriber must read the KIID before each subscription. The Funds present a risk of loss of capital. Investors may lose some or all their capital, as the capital in the funds are not guaranteed.** Investors have access to a summary of their rights in French, English, German, Dutch, Spanish, Italian at section 6 of "regulatory information page" on the following link :https://www.carmignac.com/en_US. 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. The Management Company can cease promotion in your country anytime. UK: This document was prepared by Carmignac Gestion and/or Carmignac Gestion Luxembourg and is being distributed in the UK by Carmignac Gestion Luxembourg UK Branch (Registered in England and Wales with number FC031103, CSSF agreement of 10/06/2013).**In Switzerland**: the prospectus, KIIDs and annual report are available atwww.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, succursale de Nyon/Suisse, Route de Signy 35, 1260 Nyon. **In Belgium** : **The prospectus, KIID, the net asset-values and the latest (semi-) annual management report may also be obtained, free of charge from Caceis Belgium S.A.**, the financial service provider in Belgium, at the following address: avenue du port, 86c b320, B-1000 Brussels. In case of subscription in a French investment fund (fonds commun de placement or FCP), you must declare on tax form, each year, the share of the dividends (and interest, if applicable) received by the Fund. A detailed calculation can be performed at www.carmignac.be. This tool does not constitute tax advice and is intended to serve solely as a calculation aid. This does not exempt from having to perform the procedures and verifications incumbent upon a taxpayer. The results indicated are obtained using data that the taxpayer provide, and under no circumstances shall Carmignac be held responsible in the event of error or omission on your part. Pursuant to Article 19bis of the Belgian Income Tax Code (CIR92), in the case of subscription to a Fund that is subject to the Savings Taxation Directive, the investor will have to pay, upon redemption of his or her shares, a withholding tax of 30% on the income (in the form of interest, or capital gains or losses) derived from the return on assets invested in debt claims. Distributions are subject to withholding tax of 30% without income distinction. The net asset-values are available on the website www.fundinfo.com. Any complaint may be referred to complaints@carmignac.com or CARMIGNAC GESTION - Compliance and Internal Controls - 24 place Vendôme Paris France or on the website www.ombudsfin.be

Copyright: The data published in this presentation are the exclusive property of their owners, as mentioned on each page. Morningstar Rating™ : © 2022 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.

CARMIGNAC GESTION 24, place Vendôme - F-75001 Paris - Tél : (+33) 01 42 86 53 35 Investment management company approved by the AMF Public limited company with share capital of € 15,000,000 - RCS Paris B 349 501 676 CARMIGNAC GESTION Luxembourg - City Link - 7, rue de la Chapelle - L-1325 Luxembourg - Tel : (+352) 46 70 60 1 Subsidiary of Carmignac Gestion - Investment fund management company approved by the CSSF Public limited company with share capital of € 23,000,000 - RC Luxembourg B 67 549