



Carmignac P. EM Debt: Letter from the Fund Manager



Author(s)
Joseph Mouawad

Published
July 18, 2023

Length
5

+1.97%

Carmignac P. EM Debt's performance

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

+2.08%

Reference indicator's performance

in the 2nd quarter of 2023
for JP Morgan GBI – Emerging Markets Global Diversified Composite Unhedged EUR Index

+6.37%

3-year annualized performance

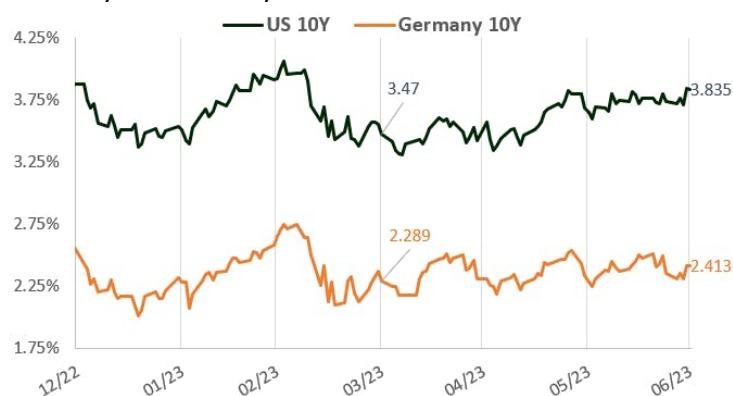
versus -0.46% for the reference indicator over the period

Carmignac P. EM Debt gained +1.97% in the second quarter of 2023, while its reference indicator was up +2.08%.

Market environment

The second quarter has been characterized by strong bullish sentiment in risky markets as well as higher global rates. The 10-year Treasury went from around 3.5% to over 3.8%, while the MSCI World added 3.7% of performance.

Germany and US 10-year rates evolution



Sources: Carmignac, Bloomberg, 30/06/2023

In terms of local rates, we have continued to see a slowdown in the emerging market (EM) inflation (as well as developed markets (DM) inflation). In this context the local bonds performed particularly well with the reference indicator GBI-EM index's yield dropping by 31 basis points over the quarter. We also saw the first rate cut in the EM universe this quarter with Hungary cutting twice by 100bps each time its overnight rate. We think that a number of countries are likely to follow in the next 2 quarters, such as Brazil, Chile, and Czechia.

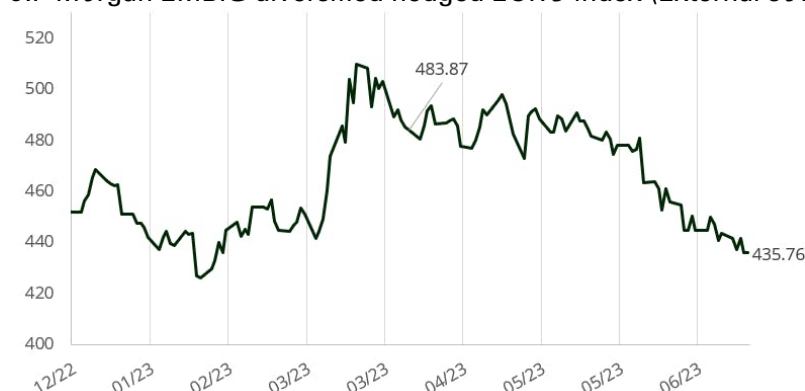
GBI-EM Index (Local sovereign debt index) - Yield Evolution



Sources: Carmignac, Bloomberg, 30/06/2023

Furthermore FX, despite the lower rates in EM retained a strong real carry and continued to attract investors with the exception of Asia suffering from its negative carry. We also saw that the political noise in Israel and South Africa (as well as power issues) significantly affected these currencies. For the sovereign credit we have seen a good performance with the EMBIGD¹ index as a whole, but the EMBIGD HY² outperformed with a compression of spreads by 60bps over the period.

J.P Morgan EMBIG diversified hedged EURO index (External sovereign debt index) - Spread Evolution



Sources: Carmignac, Bloomberg, 30/06/2023

What have we done in this context?

In this context we have benefitted from the Local Rates rally in the CZK, HUF, MXN and BRL curves. Following the rally, we started to reduce as large interest rate cuts are starting to get priced, and the usual correlation between DM rates and these Local Curves seems to have broken during this quarter. In particular we have reduced the CZK, BRL and MXN rates. In the FX space we continue to enjoy the carry and performance of EM FX currencies. Like in the previous quarter we have been long HUF, CZK, BRL, and MXN. During the quarter we reduced our HUF after its strong rally and as the central bank started to cut rates at a steep pace. We also used the weakness in ILS and ZAR to enter into tactical positions. For sovereign credit, following the strong performance of the high yield (HY) we took the chance to reduce the exposure of the fund while keeping our more investment grade (IG) names. Another important event was our purchase of Turkey credit default swap (CDS) to protect the book but which paid off as Erdogan won the elections where we also reduced the protection.

Outlook for the next months

Looking forward to it, we still expect a recession to hit the global economy: high rates are eating at demand and effect we are already largely seeing it in the EM world. Furthermore, China which last quarter was seen as launching a potentially large stimulus to boost growth, is showing that it is unwilling to repeat the policies of the past thus removing a possible source of global growth. This view of recession and high rates is reflected in our portfolio construction, namely a large reduction of risk assets. We also remain focused on duration with the view that a recession would force DM central banks to cut rates and thus enable further cuts in the EM world. This leaves us with EM FX which offer carry while having a central bank ready to defend the currency such as the CZK and the INR, as well as tactical/opportunist investments. In Local Rates we are ready to re-engage in the hikers notably in the BRL or HUF once the FED or ECB have paused and EM central banks can accelerate their cutting cycles. In Credit we remain cautious with protection against our HY names and will keep our positioning light and focused on the IG space.

¹ J.P Morgan EMBIG diversified hedged EURO index

² J.P Morgan EMBIG HY diversified hedged EURO index

Exploit fixed income opportunities across the entire emerging universe

Discover the fund page

Carmignac Portfolio EM Debt FW EUR Acc

ISIN: LU1623763734

Recommended
minimum
investment horizon



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.



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](#).