



## Carmignac P. Flexible Bond: Letter from the Fund Managers

Author(s)  
Guillaume Rigeade, Eliezer Ben Zimra

Published  
October 13, 2022

Len  


### -0.51%

Carmignac P. Flexible  
Bond's performance

in the 3<sup>rd</sup> quarter of 2022  
for the A EUR Share class

### -4.70%

Reference indicator's  
performance

in the 3<sup>rd</sup> quarter of 2022  
for ICE BofA ML Euro  
Broad index (EUR)

### +3.57%

Outperformance of the  
Fund

Year to date versus its  
reference indicator

Carmignac Portfolio Flexible Bond lost -0.51% (A EUR Acc) in the third quarter of 2022, substantially outperforming its reference indicator<sup>1</sup>, which fell by -4.70%.

## The Bond Market Today

The economic consequences of Russia's unjustified invasion of Ukraine have been seen primarily in an energy crisis, against the backdrop of interrupted natural gas supplies from the Nord Stream pipeline. Germany's manufacturing sector was built partly on the back of cheap energy from Russia, so the reduction and subsequent halt of gas deliveries has undermined a pillar of Europe's economy. However, European countries seem determined to defend their democratic values, even if that means suffering a recession this winter and watching inflation soar to levels never seen before in the history of the single currency.

The latest readings indicate that eurozone headline inflation has reached the double digits and that core inflation came in at 6% – higher than the peaks recorded in the US in Q2 2022. Meanwhile, CEO and consumer confidence has plummeted in the currency bloc amid concerns that natural gas inventories will run out this winter and that skyrocketing energy bills will push many firms into bankruptcy unless policymakers take robust action. The combination of high inflation and recessionary fears has pushed the euro down even lower against the US dollar, causing it to fall below parity, an important psychological level.

The European Central Bank has therefore had no choice but to raise its key interest rate sharply, lifting it by a total of 125 bp in the two meetings held in Q3. That puts the ECB among the vast majority of central banks that are tightening monetary and financial conditions at a record pace in order to stem the rising tide of inflation. As we've seen in the US, today's inflationary pressure is stubborn in nature and affecting all segments of the economy.

The Bank of England even went so far as to announce its first-ever programme to sell UK government bonds. This was followed by the Truss government's unveiling of an unconventional mini-budget designed to boost economic growth. But in response to the prospect of liquidity withdrawals by the central bank and a widening fiscal deficit, investors turned their back on gilts to an unprecedented scale, forcing the BoE to re-introduce its bond-buying programme in order to calm the financial-market storm. In this climate ripe with uncertainty about both economic growth and inflation, corporate bonds – and especially those in the high-yield segment – outperformed sovereign ones considerably. We believe that the attractive prices we're now seeing in the corporate-bond market already factor in high default rates in this cycle and that investors have been reassured by central banks' swift action to nip anything looking like a liquidity crunch in the bud.

## Portfolio Allocation

We adjusted our asset allocation in Q3 in response to the changing market climate.

**We substantially reduced the portfolio's modified duration.** We decided to focus our short positions on German and Italian rates, given that real interest rates in these countries are still negative and the ECB has no choice but to keep tightening monetary policy; it could even follow in the Fed's and BoE's footsteps and start shrinking its balance sheet. We also added a short position on Japanese rates, since inflation in the country – already record-breaking – should keep climbing, amid tensions between the Japanese government and central bank.

**We continued to increase our credit-market exposure.** Prices are even more attractive now that credit spreads have stabilised at high levels. We therefore reinforced our positions on the strongest convictions in our portfolio: European financial debt, high-yield corporate bonds, collateralised loan obligations, and EM debt. Because we believe the credit market will remain volatile, we decided to keep a substantial level of protection (around 12%, consisting of CDSs).

## Outlook

Rate-hike expectations now seem high enough to trigger a sharp slowdown in economic output and, in the medium term, tame inflation. But we still believe that the growing fiscal deficits, especially in continental Europe and the UK, will maintain a certain amount of upwards pressure on long-term yields. Our portfolio remains centred on our three main themes, which offer attractive valuations and solid fundamentals even in this turbulent climate: corporate bonds issued by companies linked to commodities and energy prices; subordinated financial debt; and EM debt. Around 17% of our portfolio consists of cash and money-market instruments and we have credit protection (CDSs) in place, enabling us to deploy our capital should the market dislocations get worse, creating new opportunities in the process.



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](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, KIDs 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](#).