



## European Long Short Equity: Letter from the Fund Manager



Author(s)  
Malte Heininger

Published  
October 28, 2022

Len

**Our strategy, Carmignac Portfolio Long Short European Equities, had a performance of -1.79% during the third quarter, bringing the performance to -1.65% this year, in our F share class, net of fees.**

Past performance is not necessarily indicative of future performance. The return may increase or decrease as a result of currency fluctuations, for the shares which are not currency-hedged. Performances are net of fees (excluding possible entrance fees charged by the distributor). Source: Carmignac, Bloomberg, 30/09/2022. Performance of the F EUR Acc share class ISIN code: LU0992627298.

### Q3 was a challenging quarter

**While the overall company fundamentals and macro environment continued to deteriorate on both sides of the Atlantic, equity markets remained extremely volatile.**

The Nasdaq rallied 23% from its June lows on some flawed hope of a premature FED pivot. Unsurprisingly, corporate results remained fairly resilient, as the economy does not move as quickly as stock prices, only to collapse again as the combination of a hawkish FED and a sticky core inflation destroyed the pivot narrative. Meanwhile, the big bellwether warnings from Fedex, AMD, etc started to impact the hopes for a soft landing. As the US 10 year Treasury yield is the world's discount rate and the USD its reserve currency, the rise of the US 10 year, combined with a rising dollar, put a huge strain on the rest of the world including Europe, as they make borrowing in USD more costly, amplify the energy driven and imported inflationary pressures and depress multiples.

Taking one step back, we want to recap where we stand today and where we go from here **Over the past decade, global equities, bonds, and asset prices in general, had a fantastic run.** Ever declining yields led to significant multiple expansion and asset inflation, while cheap energy, cheap labor through increasing globalization and lower taxes, led to a rise in profit margins.

Being long any asset class, ideally levered, was the right strategy

**With inflation being back, this period has abruptly ended and will force investors to look at alternative strategies, where long short equity in specific should move back into the spotlight.**

The bill is coming from the excesses in monetary and fiscal policy of the post financial crisis era. All drivers of the rise in asset prices are unravelling. The war in Ukraine, and the resulting energy crisis, has led to a sharp increase in energy costs. The retirement of the baby boomers, tougher immigration policies and a politically driven reversal of globalization have structurally increased labor costs & wage inflation in developed markets.

**The resulting inflation from both wages and energy has brought inflation to multi-decade highs, forcing central banks to raise interest rates, which will result in higher interest expenses and eventually higher taxes, as governments need to pay for their increasing interest burden. This is resulting in a compression of both multiples and profit margins.**

**Besides, interest rates are being raised into a slowing economy where consumers, particularly in Europe, are being squeezed from higher energy prices and higher interest rates, amplified by the strength of the USD vs their local currencies leading to the worst start to the year for global asset prices in decades.**

Unfortunately, there is no easy fix for this difficult situation and a quick return to a zero-rate investment environment is very unlikely

Given negative interest rates had no impact on headline inflation, rising rates and a global recession will help reduce the demand for goods and services, but will not solve the energy crisis or the structural tighter labor market. We have witnessed zero correlation between the two metrics on the way down, so it is not necessarily reasonable to assume that rising rates will solve the inflation problem. As Fed Chair Jerome Powell keeps on reminding us, inflation is extremely complex, and many factors are outside of their control.

Some of our core longs have come down a long way and seen significant multiple compression already. Puma, one of our top convictions over the last few years, is down more than 50% this year, while its mid-term fundamentals remain very strong. ASM International is also down over 30% on doubts that mid-term numbers will come down and Salesforce is back to its 2018 level despite few fundamental concerns.

**We remain net short, as the numbers for most estimates are still too high for 2023 and multiples are unlikely to expand unless we see core inflation come down convincingly or financial markets spin out of control, forcing the FED to pivot.**

**We still have a strong idea flow on the short side**

We think the combination of the rapidly rising mortgage rates, record high housing prices together with significant housing supply coming onto the market to meet squeezed consumer, will result in a huge collapse of housing transactions with big multiplier effects across the industry.

We also doubt that car dealerships have become structurally more profitable and don't see why margins should not revert to their long-term averages after doubling during the corona driven supply chain shortage.

We also think people underestimate the magnitude and duration of the air pocket that durable consumer goods will hit, post a huge demand pull forward during Covid.

As seen in the table below, **we generated positive alpha in our Alpha Shorts bucket, while our Core Longs suffered from the market backdrop.**



## YTD attribution by bucket

Core Longs	-12.43
Trading Longs	-2.77
Relative value/Special sit	-0.15
Alpha Shorts	+13.26
Hedging	+3.32

Source: Carmignac, 30/02/2022

In summary, for all the reasons we laid out, we think the environment for asset prices remains difficult.

That said, a great crisis usually creates great investment opportunities and over a reasonable time horizon some companies will go up significant in value, while others will fail.

But given we will not be able to rely on the huge tailwind to assets prices we enjoyed in the past, stock picking and a more balanced exposure to both rising and falling equity prices seems to be a wise strategy.

## Carmignac Portfolio Long-Short European Equities F EUR Acc

ISIN: LU0992627298

Recommended  
minimum  
investment horizon



### Main risk of the Fund

**RISK ASSOCIATED WITH THE LONG/SHORT STRATEGY:** This risk is linked to long and/or short positions designed to adjust net market exposure. The fund may suffer high losses if its long and short positions undergo simultaneous unfavourable development in opposite directions.

**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.

**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.

**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](#).