

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

15/04/2024 | ABDELAK ADJRIOU, ALESSANDRA ALECCI

**+1.42%**

Carmignac P. EM Debt's performance in the 1<sup>st</sup> quarter of 2024 for the FW EUR Share class.

**+0.88%**

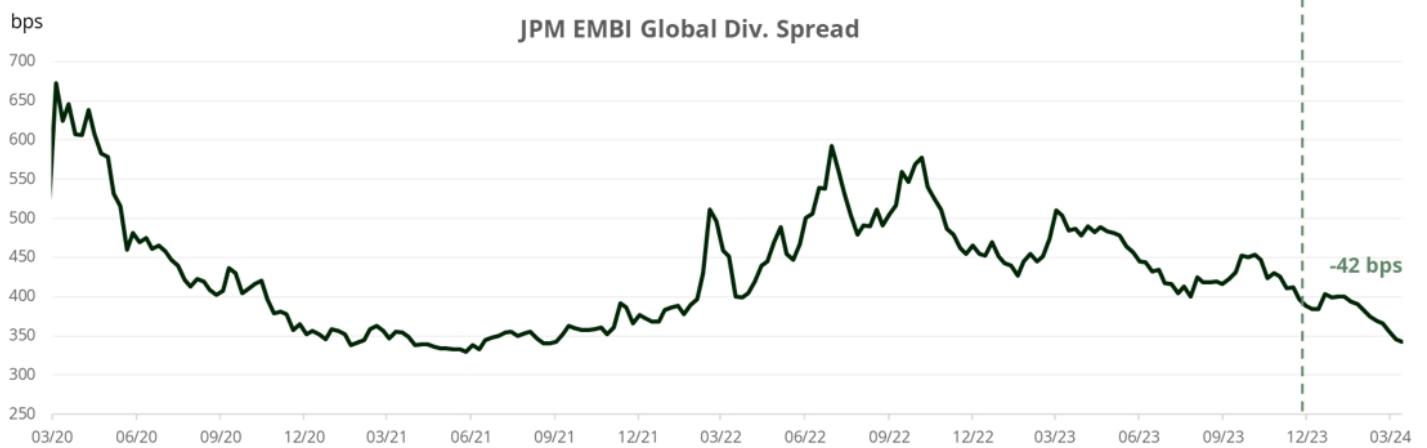
Reference indicator's performance in the 1<sup>st</sup> quarter of 2024.

**+5.55%**

Annualized performance versus +1.34% for the reference indicator since launch (31/07/2017).

*Carmignac P. EM Debt* gained +1.42% (for the FW Eur Acc share net of fees) in the first quarter of 2024, while its reference indicator<sup>1</sup> rose by only +0.88%.

## MARKET ENVIRONMENT



Source: Carmignac, Bloomberg, JPM EMBI Global Diversified Spread expressed in bps, 31/03/2024.

The initial excitement surrounding sovereign rates at the end of 2023 turned out to be short-lived. Starting from the first weeks of January, the strength of economic activity, particularly in the United States where growth remains above its potential, the surge in risky assets driven by the acceleration of the artificial intelligence theme, and the significant issuance of bonds to finance public deficits that are normalizing at a slow pace, led to higher global rates (returning to levels close to the average for 2023). This also dashed hopes for continued disinflation in the United States, although this seems to be less of a concern in Europe. In fact, in the Eurozone, headline inflation continued to decline in March to +2.4% YoY, and producer prices also fell more than expected at -1% MoM. However, services inflation has remained stubbornly high at 4% for the past three months. Given these circumstances, the possibility of a coordinated interest rate cut trajectory between the European Central Bank and the Federal Reserve appears to be diminishing. Additionally, the Bank of Japan ended its negative interest rate policy by raising rates from -0.1% to a range of 0%-0.1%.

Turning to emerging countries, we also witnessed a significant number of central bank meetings during the quarter. We observed that many of them have adopted a slightly more restrictive tone compared to before. While some central banks in the Latin American region continued their cycle of interest rate cuts, their outlook for the future has changed somewhat. Most central banks in emerging countries are now reducing the magnitude of their interest rate cuts or adopting a pause stance. As a result, the performance of the local debt index (expressed in euros) has been relatively neutral this quarter. However, despite the upward movement of rates in developed countries, local rates have once again proven to be less sensitive and more resilient. On the other hand, the emerging debt market in hard currencies has continued to perform exceptionally well, primarily due to a tightening of spreads (-42 bps since the beginning of the year, as shown in the chart below).

Among the notable events during the period, we highlight:

- China continued its stimulus yet that seems insufficient to boost its economy or improve its real estate sector for the moment.
- The Egyptian central bank, which raised the deposit rate to 27.25% (by 600 basis points) and allowed the currency to float, resulting in an immediate devaluation of -38%. As a result, the IMF increased its aid program to the country from 3 to 8 billion dollars. This was accompanied by additional multilateral support from the World Bank and the European Union. As a result, we have witnessed a strong appreciation of Egyptian external debt.
- Banxico (Mexico's Central Bank) started cutting rates with a shy -25 bps that in the end confirmed that the first cut was a hawkish cut.
- EM disinflation is nearing its final stage, as the boost from commodity prices, supply chain stabilization, and base effects has already passed.

## WHAT HAVE WE DONE IN THIS CONTEXT?

The fund recorded a positive performance in the first quarter, above its benchmark. Our selection of emerging market debt in hard currency continued to generate positive performance. It is interesting to note that the fundamentals of high-yielding EM issuers have generally improved, supporting the recent tightening of spreads. Among the main contributors to the performance of the strong currency debt, we can notably mention Argentina, Ecuador, Ukraine, Romania, and Ghana to name a few.

As for emerging market debt denominated in local currency, its contribution was more neutral, with Poland being among the main contributors to the fund's performance. However, our long positioning in South African weighed on the performance of the fund, in fact the South African central bank is among those central banks that have adopted a pausing posture.

Corporate credit also continued to contribute positively to the fund's performance, thanks to the ongoing tightening of spreads in this sector. However, we maintain a high level of protection given the historically low credit spreads. In addition, our relative underweight in terms of interest rate sensitivity contributed positively to our performance compared to our benchmark. We maintained a cautious position in terms of overall duration throughout the period, with an interest rate sensitivity of approximately 3.9 at the end of the period. Ultimately, our currency strategies negatively impacted the fund's performance, particularly our long position in the Japanese yen. However, the Euro, the Indian rupee and the Kazakh tenge contributed positively to the fund's absolute performance.

## OUTLOOK FOR THE NEXT MONTHS

The latest macroeconomic indicators suggest that the low point of manufacturing activity is behind us in the United States, the eurozone, and China. This situation particularly supports our optimism regarding commodities such as copper and oil. This should benefit emerging market debt and currencies of commodity-producing emerging market countries. We have a positive view on the **Brazilian real**. In fact, with a dovish Fed and strong performance of risky assets in the backdrop of a "soft-to-no landing" global economy, high carry in select emerging markets, particularly in Latin America, remains favorable (whether it be in the currency, local rates).

We also maintain a constructive view on certain **Asian currencies** such as the Korean won, as their economies are expected to benefit from the rise of artificial intelligence. We also maintain our buying position on the Japanese yen as the Bank of Japan has started its rate hike cycle in March and is fighting against the depreciation of its currency. We also remain buyers of emerging market debt in strong currencies, although we are starting to take profits on our best-performing positions since the beginning of the year.

**Regarding local rates**, we believe that emerging markets have been less sensitive to the movements of rates in developed countries, with a few exceptions such as Chile or Colombia where inflation has been higher than expected. We particularly appreciate Mexican local rates where we anticipate further rate cuts from the central bank. Additionally, we are also positive on Brazilian rates where we believe the market's terminal rate is still too high. Finally, we continue to appreciate Chinese rates where we expect more accommodative measures.

**Regarding hard currency debt**, it is interesting to mention that the fundamentals of high-yield issuers have generally improved, which supports the recent tightening of spreads. However, these names remain very attractive in terms of yield. In fact, we have continued to reduce rates in Eastern Europe, particularly Hungarian bonds, as the market has already priced in a number of future rate cuts in the country.

In the current economic context, our interest rate sensitivity is close to 400 basis points, in line with the previous month, while continuing to protect the portfolio through index hedges (credit default swaps).

Sources: Carmignac, Bloomberg, 31/03/2024. <sup>1</sup>50% JP Morgan GBI – Emerging Markets Global Diversified Composite Unhedged EUR\* + 50% JP Morgan EMBIG Diversified hedged in Euro (Since 02/01/2024). Performance of the FW EUR acc share class.

**Past performance is not a reliable indicator of future performance. The return may increase or decrease as a result of currency fluctuations. Performances are net of fees (excluding possible entrance fees charged by the distributor).**

# CARMIGNAC PORTFOLIO EM DEBT FW EUR ACC

(ISIN: LU1623763734)

SFDR - Fund Classification\*\* :

Article **8**



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.**

\*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.

## 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>+3.8 %</b>	<b>+5.2 %</b>	<b>+5.5 %</b>
Indicateur de référence	+2.7 %	+0.4 %	+1.8 %

Source: Carmignac at 29 Nov 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](#).