Our monthly investment review: August 2022

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Markets reversed their course, not central bankers

Market hopes were dashed from mid-August onwards after the release of UK inflation data (above 10%) acting as a reminder that there are two sides to the tug-of-war between inflation and recession. Indeed, the narrative of inflation rolling over and hence of central bankers eventually shifting on the dovish side was further questioned with the strong US employment data and both macro (retail sales) and micro (US large retailers' publications) statistics pointing to a resilient consumer.

The strong words of Federal Reserve Chairman Jerome Powell (but also those of European Central Bank Executive Board member Isabel Schnabel) at the Jackson Hole Symposium have further tipped the scales in favour of inflation. Indeed, central bankers are saying loud and clear that they see inflation as a far greater threat to the economy than recession.

Such an environment calls for caution as markets are entering a potentially treacherous period. Interest rates continue to be raised (and will be kept in restrictive territories for some time until inflation is effectively tamed) and liquidity is being pulled out of the system (with quantitative tightening accelerating) while the pace of economic growth slows and the risk of recession increases.

And adding fuel to the fire, the looming energy crisis in Europe also calls for vigilance. The range of potential outcomes is particularly wide. However, both the price issue (with the impact of the multiple increase in gas and energy prices) and the prospects for rationing (where restocking but also flows matter) suggest a significant fall in production.

Cautiousness is expressed at several levels

Although actively managed, the overall level of equity risk in the Carmignac Patrimoine Fund is kept relatively low - between 10% and 25% of net equity exposure and significantly lower from a beta adjusted perspective. Within the equity portfolio, we particularly favour recession-resilient businesses, which is reflected via companies operating in the healthcare and consumer sectors. This conviction at sector level goes hand in hand with selectivity at individual stock level.

In consumer-related sectors, we focus on companies providing essential goods and services that are not subject to competition from e-commerce or private labels, and that have significant exposure to US rather than European households.

In the technology sector, we hedge market risk and prefer cloud and software businesses. For example, during the month we constituted a position in Oracle given the defensive nature of its business, which is largely focused on cloud computing services and the provision of very sticky enterprise software that should be relatively resilient in a downturn.

A good thing is worth waiting for

While bonds generally become a safe bet when the risk of recession increases, the prevailing inflationary environment and the hawkish central bank stance mean that interest rates and therefore bonds, both sovereign and corporate, are volatile.

Thus, caution is still warranted on sovereign bonds, as the acceleration of quantitative tightening and the resumption of debt financed fiscal spending are likely to put further upward pressure on bond yields for the time being.

Similarly in credit markets where we have increased our protections (mainly on European high yield) to fully hedge credit investments. Corporate bonds are offering increasingly attractive yields. However, the negative cost impact of high energy prices, demand uncertainty over the next few months and high volatility on the rates front should prevent credit spreads from falling significantly from their current level, while lower liquidity-induced stress does not seem to be priced in.

Valuations are improving, but for now, the focus should be on money management mode rather than on performance generation mode. The time will come to redeploy portfolios and look to benefit from long-term alpha generation. So let's be patient.

Source: Carmignac, 05/09/2022.

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Carmignac Patrimoine A EUR Acc

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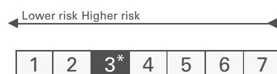
Recommended minimum investment horizon



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.

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