



Our monthly investment review: October 2022



Author(s)
Kevin Thozet

Published
November 10, 2022



How far high can you tune a guitar string before it breaks?

Last month, investors assumed that central banks would finally emulate guitarists. To tune their guitars, musicians turn the knobs on the headstock of their instrument to tighten or loosen each string and change the pitch of the sound produced. However, such an operation requires a certain amount of skill, as tightening the string too aggressively can break it. Therefore, guitarists proceed with caution, plucking one string, listening to the sound it makes, and then gently readjusting it if necessary.

Thus, investors hoped in October, that central banks would seek to “fine-tune” their decision by adjusting their monetary policy to the inflation, without “breaking a string”, i.e. preserving financial stability. After all, didn’t the Bank of England put a stop to its monetary tightening plan when UK pension funds were threatened by the exponential rise in long-term yields?

Investors were also hoping that the world’s big money men would “pluck the string and listen to the sound it makes” before they touched the knobs again, i.e. they would assess the impact of the current level of interest rates on the real economy. Indeed, this is what some central banks officials were probably hoping for as well, given the unease of some of them at the US Federal reserve (Fed) about sharp rate hikes as reported by the *Wall Street Journal*, or the Bank of Canada’s decision to raise rates by 50 basis points (bp) rather than the anticipated 75, citing concerns about slowing demand and the housing market.

Will central bankers pay more attention to growth?

But beware, it would be unwise to anticipate any monetary pivot. Even if inflation is falling from its peak, it is still high [and is likely to remain so](#) in the future. Moreover, the tolerance threshold of governments and institutions probably varies from country to country, as economic situations are very heterogeneous. Not forgetting that the European Central Bank (ECB) raised rates by 75 bp last month – its third consecutive increase this year.

Nevertheless, central bankers and investors are likely to focus increasingly on growth, which is expected to be very disappointing as inflation continues to affect it -as illustrated by the decline in activity of big tech companies and their gloomy outlook. Therefore, while 2022 is likely to be the year of front loading and the rush by central banks to raise short-term rates, 2023 may well be the year of central banks observing and monitoring the impact of higher rates on economies.

The hope that central banks would pay more attention to economic growth gave the bond market some respite in October – the US 10-year yield reached 4.3% before falling back below 4%-, the euro recovered against the US dollar, and equities in developed countries rebounded.

In contrast, emerging markets suffered from the political situation in China, where President Xi Jinping's consolidation of power following the 20th National Communist Party Congress suggested that China's zero-covid policy and economic interventionism are here to stay. However, the Chinese government is expected to continue to roll out growth support measures, many of which may be unveiled at the Central Economic Work Conference in December.

Changes in Carmignac Patrimoine's portfolio

Taking advantage of widespread bearishness and renewed pessimism at the beginning of October, combined with an impending inflation spike (base effects from last year, measures to limit the negative impact of high energy prices) as well as a shift in market narrative as central bankers tuned their tone, we took profits on most of our protections on equity markets. That decision was also a result of what history teaches us, namely that bear market rallies can be powerful and turn into more sustainable trends.

We believe that the current extreme pessimism and falling valuation levels that make some assets attractive should support the visible growth stocks in our portfolio until the end of the year. We have also lifted some of our protections on our credit portfolio.

The stabilisation of interest rates should offer some relief to this asset class, which we believe incorporates a lower level of implied default rate than valuations suggest. And given the current yield of our fixed income book of around 6%, the passage of time has become an ally of portfolio construction – providing meticulous bond selection.



Equity

Increased our exposure to the consumer staples sector given its resilience in the face of increasing margin pressures and a build-up of consumer spending concerns.

Increased our exposure to the food and beverage sector, which could be resilient in a recession, as suggested by Coca-Cola's earnings growth this quarter.

Bonds

Increased our allocation to long-term US sovereign bonds to cope with disappointing future growth, as we saw some form of dislocation between prices and fundamentals with 30-year yields moving to 4.4% (+1% over a month) despite a grimmer growth outlook.

Gold

Increased our exposure to gold, as lower real yields associated with the economic slowdown should help the yellow metal regain its 'store of value' status.

Markets are not one-way, and in times of extreme and widespread downturns, recognising that it can be useful to be contrarian is essential to achieving less correlated returns. In the same way that sometimes you need to know not to over-stretch a string in order to preserve it and prevent it from breaking.

[Read our latest analyses](#)

Carmignac Patrimoine A EUR Acc

ISIN: FR0010135103

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.

This is a marketing communication. For professional investors only. Please refer to the KIID/prospectus of the fund before making any final investment decisions.

It is published by Carmignac Gestion S.A., a portfolio management company approved by the Autorité des Marchés Financiers (AMF) in France, and its Luxembourg subsidiary Carmignac Gestion Luxembourg, S.A., an investment fund management company approved by the Commission de Surveillance du Secteur Financier (CSSF), pursuant to section 15 of the Luxembourg Law of 17 December 2010. "Carmignac" is a registered trademark. "Risk Managers" is a slogan associated with the Carmignac trademark. This document does not constitute advice on any investment or arbitrage of transferable securities or any other asset management or investment product or service. This material may not be reproduced, in whole or in part, without prior authorisation from the Management Company. The information and opinions contained in this document do not take into account investors' specific individual circumstances and must never be interpreted as investment, accounting, legal or tax advice. Taxation depends on the situation of the individual. 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 because 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. Risk Scale from the KIID (Key Investor Information Document). Risk 1 does not mean a risk-free investment. This indicator may change over time. The recommended investment horizon is a minimum and not a recommendation to sell at the end of that period. 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 KIID (Key Investor Information Material). The prospectus, KIID, the net asset-values and the latest (semi-) annual management report may be obtained, free of charge, in French, English, German, Dutch, Spanish, Italian, from the management company. The KIID must be made available to the subscriber prior to subscription. The subscriber must read the KIID before each subscription. The Funds present a risk of loss of capital. Investors may lose some or all their capital, as the capital in the funds are not guaranteed.** Investors have access to a summary of their rights in French, English, German, Dutch, Spanish, Italian at section 6 of "regulatory information page" on the following link : https://www.carmignac.com/en_US. 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. The Management Company can cease promotion in your country anytime. UK: This document was prepared by Carmignac Gestion and/or Carmignac Gestion Luxembourg and is being distributed in the UK by Carmignac Gestion Luxembourg UK Branch (Registered in England and Wales with number FC031103, CSSF agreement of 10/06/2013). **In Switzerland:** the prospectus, KIIDs 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, succursale de Nyon/Suisse, Route de Signy 35, 1260 Nyon. **In Belgium :** **The prospectus, KIID, the net asset-values and the latest (semi-) annual management report may also be obtained, free of charge from Caceis Belgium S.A.**, the financial service provider in Belgium, at the following address: avenue du port, 86c b320, B-1000 Brussels. In case of subscription in a French investment fund (fonds communs de placement or FCP), you must declare on tax form, each year, the share of the dividends (and interest, if applicable) received by the Fund. A detailed calculation can be performed at www.carmignac.be. This tool does not constitute tax advice and is intended to serve solely as a calculation aid. This does not exempt from having to perform the procedures and verifications incumbent upon a taxpayer. The results indicated are obtained using data that the taxpayer provide, and under no circumstances shall Carmignac be held responsible in the event of error or omission on your part. Pursuant to Article 19bis of the Belgian Income Tax Code (CIR92), in the case of subscription to a Fund that is subject to the Savings Taxation Directive, the investor will have to pay, upon redemption of his or her shares, a withholding tax of 30% on the income (in the form of interest, or capital gains or losses) derived from the return on assets invested in debt claims. Distributions are subject to withholding tax of 30% without income distinction. The net asset-values are available on the website www.fundinfo.com. Any complaint may be referred to complaints@carmignac.com or CARMIGNAC GESTION - Compliance and Internal Controls - 24 place Vendôme Paris France or on the website www.ombudsfin.be

Copyright: The data published in this presentation are the exclusive property of their owners, as mentioned on each page. Morningstar Rating™ : © 2022 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.

CARMIGNAC GESTION 24, place Vendôme - F-75001 Paris - Tél : (+33) 01 42 86 53 35 Investment management company approved by the AMF Public limited company with share capital of € 15,000,000 - RCS Paris B 349 501 676 CARMIGNAC GESTION Luxembourg - City Link - 7, rue de la Chapelle - L-1325 Luxembourg - Tel : (+352) 46 70 60 1 Subsidiary of Carmignac Gestion - Investment fund management company approved by the CSSF Public limited company with share capital of € 23,000,000 - RC Luxembourg B 67 549