FLASH NOTE

20.02.2019

Five minutes with Pierre Verlé

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Published
February 20, 2019

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Credit markets are back to a regime closer to what we experienced in most of 2018

What’s your view on credit markets for 2019?

After a very strong beginning of the year, where the liquidity unwind of November and December 2018 reversed, credit markets are back to a regime closer to what we experienced in most of 2018. Market spreads are on the tight side, which is to be expected. Indeed, default rates have not picked up yet and spreads historically tend to reflect the current default rate (while the only thing that matters is actually the forward five-year cumulative default rate).

As we progress into this already very long credit cycle, **risk aversion should increase and dispersion should be on the rise.** We expect the market to be more and more split between what is considered safe and what is considered risky – and when one issuer stops being perceived as risk-free, prices fall and can create interesting risk-rewards.

We also observe that the structure of credit markets has changed significantly in recent years. While at the time of the global financial crisis the banks dominated the lending business, the buy side (pension funds, municipalities, foundations, etc.) currently bears the majority of credit risk, mostly in the form of ETFs or constrained funds close to benchmarks. This new regime should increase volatility in the next down cycle.

In this late cycle context, credit markets should be analysed with high scrutiny and according to their own specificities. However, **this is a favourable environment for bond pickers.** As dispersion is here to stay, we expect to maintain a prudent overall risk profile and to deploy capital profitably on the fringes of the markets, where the combination of risk aversion and decreased liquidity will create idiosyncratic opportunities for the investor with a flexible mandate. Whether the market stays in its current shape or widens, we are confident that performance drivers will arise in credit markets such as: carry, longs and shorts, as well as idiosyncratic opportunities and spikes of volatility offering better entry points.

For more information about the Funds:

Carmignac Portfolio Unconstrained Credit

Carmignac Sécurité

Carmignac Portfolio Sécurité

MAIN RISKS OF CARMIGNAC PORTFOLIO UNCONSTRAINED CREDIT

CREDIT: Credit risk is the risk that the issuer may default.**INTEREST RATE:** Interest rate risk results in a decline in the net asset value in the event of changes in interest rates. **RISK OF CAPITAL LOSS:** The portfolio does not guarantee or protect the capital invested. Capital loss occurs when a unit is sold at a lower price than that paid at the time of purchase. **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.**