FLASH NOTE

16.09.2019

Is it still time to invest in credit markets?

Published
September 16, 2019

Length
3 minute(s) read

Investors may ask themselves whether the timing is appropriate to enter an asset class that has performed well since the beginning of the year. As concerns grow over expensive valuations and late credit cycle dynamics, versatile solutions are needed to navigate volatile credit markets.

What are our current views on credit markets?

The current environment bears similarities with the first ten months of 2018 which was **an excellent time for bond-pickers**. Credit markets have not been immune to financial repression and are undoubtedly expensive, yet as we are well advanced in an already very long credit cycle, we believe there is mounting risk aversion that is **fuelling dispersion**.

We expect this aversion to idiosyncratic risk to continue to rise, independently of monetary policy, with the frequency of credit accidents increasing, as there is no better fertilizer for defaults than abundant and cheap money. This creates increasing segmentation between what credit markets consider safe and what they consider risky.

When an issuer suddenly stops being perceived as safe (which is by no means the same thing as being safe), an overreaction can create opportunities that reward investors well in excess of the cost of risk, even in an overall expensive credit environment.

> **In this regard, we believe Carmignac Portfolio Unconstrained Credit to be a relevant way to access the asset class.**

An unconstrained approach

An unconstrained approach's aim is to maximize returns, net of the cost of risk, through **rigorous credit selection** not only at any point in time but also **across the credit cycle**.

A large investment universe

A large investment universe allows the fund to find opportunities even when most credit markets are expensive. The Fund can find attractive idiosyncratic opportunities in investment grade, high yield, distressed corporate and structured credit across developed and emerging markets.

A flexible exposure management

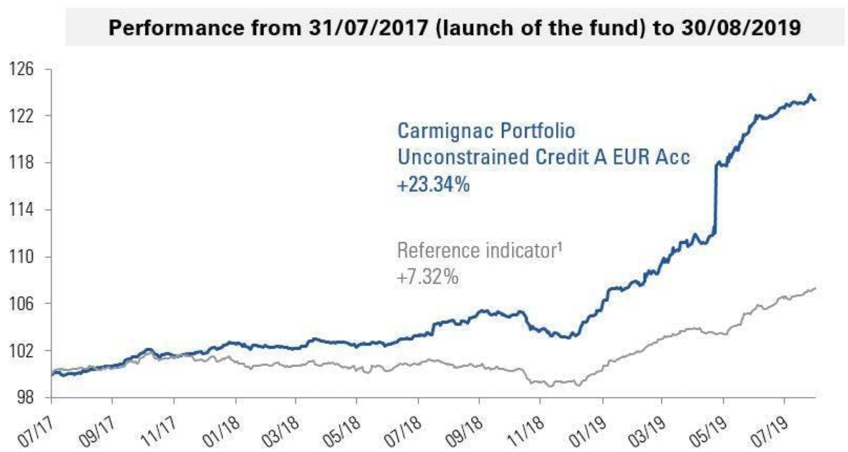
The Fund has the ability to manage its beta to the asset class (reducing net exposure) thanks to a **pertinent tool kit**, notably credit derivatives (up to 30% of the Fund's net assets) which allow to reduce its exposure to credit markets.

A different approach to credit markets

Traditional credit funds structurally take on too much risk when valuations are expensive and too little risk when they are cheap.

Carmignac Portfolio Unconstrained Credit seeks to do exactly the opposite, making it well suited to any environment, especially the current one.

How did the Fund fare since launch?



Calendar year performance

	Fund	Indicator[1]
2017[2]	1.79%	1.13%
2018	1.69%	-1.75%
2019 YTD	19.16%	8.01%

Annualized performance

	Fund	Indicator[1]
Since launch	10.59%	3.45%

Source: Carmignac, 30/08/2019

[1]75% ICE BofAML Euro Corporate Index (ER00) and 25% ICE BofAML Euro High Yield Index (HE00) calculated with coupons reinvested and rebalanced quarterly. Past performance is not necessarily indicative of future performance. The return may increase or decrease as a result of currency fluctuations. Performances are net of fees (excluding applicable entrance fee acquired to the distributor).

For more information:

CARMIGNAC PORTFOLIO UNCONSTRAINED CREDIT

Performance explanation

H2 2017

Credit markets were expensive and valuations got more and more stretched, in the context of a very liquid environment.

During this period, the Fund maintained a conservative positioning

Slight outperformance of the Fund versus its reference indicator, thanks to the performance of its core portfolio as well as its relative value strategies

2018

We entered 2018 conservatively positioned as credit markets were expensive
In the first 10 months, an increasing risk aversion from market participants fueled dispersion which created a positive context for our Fund's performance drivers: long idiosyncratic opportunities, structured credit, selective short via credit derivatives, etc.
The last two months were characterized by a liquidity crisis which led to a sharp widening of credit spreads creating very appealing risk rewards, sowing the seeds of the 2019 performance
Thus, the fund generated a positive performance of 1.69% over the year while our reference indicator was in negative territory

2019 YTD

When spreads widened and markets offered more value in late 2018-beginning of 2019, we turned opportunistic and deployed capital in attractively priced opportunities

The fund also benefited from the strong performance of one our short single name position, expressed via very cheap credit derivatives

YTD performance stand at 19.16% versus 8.01% for the reference indicator

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.**