PICTET
Asset Management

Monthly Manager Comments
28.02.2022

Pictet - Short Term Emerging Corporate Bonds - I dy USD

Risk and reward profile

Don't take unnecessary risks. Read the Key Investor Information Document.

Lower Risk						Higher Risk
1	2	**3**	4	5	6	7
Typically lower rewards						Typically higher rewards

Market review

Short-dated emerging corporates market (as represented by J.P.Morgan CEMBI 1-3 year Broad Diversified Index) returned -5.1% in February 2022. Spread widened by 245 bps during the month at the index level. 5-year US treasury yield ended the month 11 bps higher. EM corporate bond issuance came in at USD 25bn in February and remained below the historical average (USD 37bn). The regional mix was split between Asia (at USD 17bn ~ 68%) followed by the Middle East (at USD 4bn ~16%) and Latin America (at USD 3bn ~13%). The rating breakdown at IG:HY was 80%:20% in February. **Data source: J.P.Morgan.

Performance analysis

The fund posted a negative return during February. In term of market performance for the month, the investment-grade segment outperformed the high-yield grade segment, and in terms of region, the Middle East was the outperformer on a relative basis at -1.4%, as all the regions posted negative returns.The main detractor to the fund’s absolute return in February was the exposure to Russia and Ukraine given the geopolitical crisis outbreak. China real estate also contributed negatively as fundamentals continued to deteriorate and technicals also continuing to be challenging since the end of last year. Trans-Oil, Moldova Consumer in the agriculture sunflower business also suffered given its geographical proximity to the conflict areas. On the positive contributor side, our exposure in Argentina (YPF & Pampa Energia) has contributed positively to the fund’s performance being one of the few idiosyncratic places in the market, where the performance was positive during the month. Our small overweights in Peru also benefited the funds, given their short-dated nature and their exposure to metal prices.

Portfolio activity - overweightings & underweightings

During the month, the fund continued to be in a risk reduction mode in: a) Ukraine/Russia significantly ahead of the invasion as we were uncomfortable with our overall risk exposure given the different scenarios, b) marginal reduction in longer-dated maturities in the fund (around the 5-year maturity) such as Ecopetrol, and c) ESG offenders which we thought we are not compensated for the risk. We have also added protection outside of Russia via Turkey and indices as the conflict escalated on concerns on further knock-on effects in the region on asset prices. As of the end of February, the biggest country exposures in terms of risk (measured by duration times spread) outside of Russia/Ukraine are in Argentina, China and India. Biggest sector allocation in terms of risk are in oil and gas, real estate and consumer.

Market outlook

Our outlook on the risk backdrop remains cautious given the challenges faced by central banks with regards to inflation, which is further exacerbated by increasing commodities and energy prices, not to mention the tightening impact that financial conditions will have on credit spreads. We have just entered the phase of stimulus withdrawal from both monetary and fiscal perspective over concerns of uncontrolled inflation. With a first few signs of a slowdown in economic activity, central banks, led by the Fed, are now in an even more difficult spot. We think they will stay on course for now and remain hawkish as there is a lack of material evidence from the economic data to change direction. This remains a challenging environment for fixed-income assets and we expect markets to remain volatile with higher risk premium to be repriced. We continue to think, as a main theme, that short-dated high-yield bonds will fare best in this environment, and so credit selection remains the centre of our focus.

Portfolio strategy

We continue to favour more balance in the portfolio going forward with a tilt toward HY vs IG given the macro backdrop described in the outlook as HY offers more spread cushion especially in the short end of the curve. However, we remain more selective than ever before and we prefer to run lower risks levels overall in the portfolio despite seeing attractive opportunities from spreads widening. Bottom-up selection remains our key focus in line with our investment philosophy. In this environment we will look for 1) issuers that offer good carry with solid/enhancing fundamentals 2) macro / sovereign / sector-led valuation opportunities with spread tightening potential, supported by bottom up fundamental conviction.

General information

Legal form	Sub-fund of a SICAV
Regulatory status	UCITS
Domicile	Luxembourg
Inception date	14.05.2014
Launch date	14.05.2014
Share class currency	USD
Compartment currency	USD
ISIN	LU1055196056
Reference index	JP Morgan CEMBI Broad Diversified 1-3 Years (USD)
Min. investment horizon (year(s))	1

Fees

Ongoing charges (OCR)	0.79%
Performance fee (excluded from OCR)	-
Management fee (included in OCR)	0.55%
Max. conversion fee	2.00%
Max. subscription fee	5.00%
Max. redemption fee	1.00%

Management team

Alain Nsiona Defise
Luke Chua

Source: Pictet Asset Management

Further information can be found in the prospectus.

Pictet Asset Management

For further information, please visit our website assetmanagement.pictet

Important Information