

Pictet - Ultra Short-Term Bonds USD - I

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

Economic figures published in February were overall strong: retail sales and industrial production rebounded above expectations and are now both above their pre-pandemic levels. Employment also surprised on the upside, with actual figures of January job creations well above expectations (467k against 125k). Finally, inflation came as a shock, as the 7.5% y-o-y CPI headline rate was the highest in the last 40 years. All contributed to further Fed hawkishness and the January FOMC minutes showed that FOMC members judged that it would 'soon be appropriate' to raise the Fed Funds rate, that the pace should be faster than in the last cycle and that the reduction in the balance sheet should be done at a faster pace. In this environment the market rapidly priced in seven 25bp rate hikes over the coming year. The Russian invasion of Ukraine, however, blurred the whole picture: on one side, worries around oil and gas supply raised inflation expectations and added to the rate-hike expectations but on the other side the global negative effects on growth linked to the war and the sanctions imposed to Russia contributed to a downward reduction in the number of rate hikes. Overall, however, USD liquidity tightened as shown by the widening in the EUR/USD basis swaps, but short-term markets continued to function, reacting differently from during the March 2020 Covid crisis.

Performance analysis

The fund suffered somewhat in February from volatility in the rate-hike expectations and from some widening in the bid/ask spreads that weighed on credit valuations, despite its defensive positioning on both duration and credit sides.

Portfolio activity - overweightings & underweightings

The fund's weighted average maturity declined from 258 to 214 days during the month, as we remained defensive on the duration side, selling some 2-year US T Note futures to protect the portfolio from increasing rate-hike expectations. The fund's weighted average life also declined, to a smaller extent though, shedding 18 days to finish the month at 386 days. The fund benefited from strong inflows and we took advantage of the steepening of the curve to put this money at work at attractive levels, investing mostly between 12 and 18 months where yields appeared the most attractive, without adding too much duration. Among our main investments were Alibaba 06/2023, BFCM and Mitsubishi UFJ 07/2023, Toyota and Natwest Group 09/2023.

Market outlook

The next few weeks and months will continue to be dominated by the same themes: inflation, rate hikes and Russia/Ukraine war. The tightening in monetary policy leaves no doubt considering very high and resilient inflation, and a first hike is expected at the March FOMC meeting. A 50bp hike that was once on the table looks now highly unlikely due to the geopolitical developments. The Federal Reserve will, however, walk the rate hike path, probably opting for 25bp rate hikes at most of its 2022 FOMC meetings and beyond. It will probably also embark on quantitative tightening later in the year but will remain attentive to USD liquidity.

Portfolio strategy

The steepening of the rate curve has opened new investment opportunities. Volatility, however, will remain rather ample as market participants may continue changing their mind over future monetary policy. The invasion of Ukraine by the Russian troops has brought an additional element of volatility, which will encourage us to focus on the most stable issuers in terms of credit.

General information

Legal form	Sub-fund of a SICAV
Regulatory status	UCITS
Domicile	Luxembourg
Inception date	28.06.2019
Launch date	28.06.2019
Share class currency	USD
Compartment currency	USD
ISIN	LU2009036414
Reference index	US Effective Federal Funds Rate - Total Return (USD)
Min. investment horizon (year(s))	1

Fees

Ongoing charges (OCR)	0.33%
Performance fee (excluded from OCR)	-
Management fee (included in OCR)	0.17%
Max. conversion fee	2.00%
Max. subscription fee	5.00%
Max. redemption fee	1.00%

Management team

Jean Braun
Philippe Billot

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

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