

Pictet - EUR High Yield - I

Risk and reward profile

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

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

Market review

Russia's invasion of Ukraine overshadowed what had already been an eventful month. It began with growing noises that central banks would be forced to embark upon a more aggressive tightening cycle than anticipated. The month ended with a risk-off move prompted by warnings and then the reality of Russia's invasion of Ukraine, which in turn triggered severe sanctions on Russia that have had a severe market impact across asset classes. The negative tone from geopolitics and central banks meant that equities were the worst performers with US and European equities both falling around 3%; European bank shares lost over 9%. For the second month running, major DM credit indices fell, with losses shared among IG and HY, across EUR, GBP and USD. The prospect of higher inflation and hawkish central bank action hurt sovereign bonds although there was some relief towards the end of the month. Periphery spreads widened and underperformed. Numerous commodities surged with oil moving above \$100/bbl for Brent and WTI while European natural gas, wheat and aluminium also increased sharply. Specifically for European high yield, spreads widened by 60 bps for the month, resulting in a yield-to-worst close to 4.3%. Technicals remain positive for the high-yield universe with strong demand and mild supply. There were no defaults in February due to continued strong corporate fundamentals.

Performance analysis

Relative performance was positive gross of fees, driven by our defensive positioning and an overweight exposure to US high yield (energy) names, helping to outperform the European market. Rating segments declined in line with each-other, indicating that we were not in a true risk-off or recessionary environment yet. Sector wise, smaller sectors like Technology and Capital goods outperformed while Financials, Consumer Cyclical, and Auto's underperformed. Outperformance across the board was driven by high average rating and shorter duration while underperformance was driven by a mix of lower-rated names like Monte subordinated bonds and the various Russian financials in the index all of which dropped to distressed levels. Outperformance for the month was a mixture of being short overall risk, partly using crossover and overweight risk in US High Yield energy entities. At the single name level, our overweight in Shaeffler (BB1, auto-parts) and Occidental Petroleum (BB1, energy), which announced a tender for its bonds, contributed positively to returns. Outperformance was tempered by the flattening of the Ukrainian/Russian capital structures, which meant our zero weights in the smaller benchmark entities did not sufficiently offset our overweight holdings in Gazprom. Considering the removal of these bonds from the indices in the coming month, the fund sold out of all bonds.

Portfolio activity - overweightings & underweightings

Risk exposure in the fund remained in line, being more defensive since October 2021. Trading activity was subdued for the month amid increased volatility and remained focused on retaining liquidity in the fund. As the month progressed, switches have been enacted to lock in individual bond outperformance, mainly in the shorter duration and energy space. As spread widening continued, the argument for creating optionality in terms of when and if market tightening occurs becomes stronger.

Market outlook

At a macro level, the three main risks we are monitoring for 2022 are the geopolitical risks and associated sanctions on Russia, a China slowdown bleeding into global growth and the ongoing fallout of a higher inflationary backdrop. Russia's invasion is clearly at the forefront of investors' minds. We are monitoring the impact of the sanctions and what they can bring to the financial system in terms of counterparty risks; these are so far underappreciated by the market. If these risks escalate, they would undoubtedly lead to dovish central banks. However, at present they are trapped in a corner, with inflation remaining elevated but with growth at risk of slowing even before they start hiking. The Fed will still try to hike in March but might try to temper QT. Meanwhile, the ECB might have to find ways to dial down its recent hawkishness with war and sanctions on its doorstep. We still note many underlying credit market fragilities in weaker names, such as questionable fundamentals, elevated corporate leverage and the overall deterioration of credit quality, particularly in terms of IG indices.

Portfolio strategy

Our aim is to ensure the portfolio is liquid and well positioned to take advantage of the volatility which has hit markets. This has historically been the period when performance of the strategy has been strongest as forward-looking returns become more attractive. The improving trend in credit fundamentals is expected to continue, with companies remaining conservative in their use of cash. The additional Omicron variants have had only a limited impact on earnings as companies have adapted well to Covid-linked disruptions. Actual default rates continue to decline and are expected to remain at these low levels on the back of strong fundamentals. The key concern remains inflation and geopolitical risk. These are two reasons for us to remain defensively positioned at this point in time. As spreads widen, the argument for upside optionality becomes stronger. In the meantime, we continue to focus on credit selection as a means to upgrade the credit quality of our investments and focus on relative value opportunities.

General information

Legal form	Sub-fund of a SICAV
Regulatory status	UCITS
Domicile	Luxembourg
Inception date	27.09.2001
Launch date	27.09.2001
Share class currency	EUR
Compartment currency	EUR
ISIN	LU0133806785
Reference index	ICE BofA Euro High Yield Constrained (EUR)
Min. investment horizon (year(s))	3

Fees

Ongoing charges (OCR)	0.84%
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

Andrew Wilmont
Prashant Agarwal
Frédéric Salmon

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

This marketing material is issued by the Fund Management Company, Pictet Asset Management (Europe) S.A., a company authorized and regulated by the Luxembourg regulator "Commission de Surveillance du Secteur Financier". It is neither directed to, nor intended for distribution or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation. The information contained in this document is for information purposes only. It cannot be used as a basis for subscription and does not form part of a contract. The latest version of the fund's prospectus, Key Investor Information Document, annual and semi-annual reports must be read before investing. They are available in English and in the local language of each country where the compartment is registered, free of charge on www.assetmanagement.pictet or at Pictet Asset Management (Europe) S.A., 15 avenue J.F. Kennedy, L-1855 Luxembourg, or at the office of the Fund local agent, distributor or centralizing agent if any. In Switzerland, the representative agent is Pictet Asset Management S.A. and the paying agent is Banque Pictet & Cie S.A. Pictet Asset Management (Europe) S.A. has not taken any steps to ensure that the securities referred to in this document are suitable for any particular investor and this document is not to be relied upon in substitution for the exercise of independent judgment. Tax treatment depends on the individual circumstances of each investor and may be subject to change in the future. Before making any investment decision, investors are recommended to ascertain if this investment is suitable for them in light of their financial knowledge and experience, investment goals and financial situation, or to obtain specific advice from an industry professional. Holdings do not represent the full portfolio. There is no guarantee that these securities will be held in the future and you should not assume that investment in the securities listed was, or will be profitable. Any reference to a ranking, a rating or an award provides no guarantee for future performance results and is not constant over time. For hedged share classes, only the compartment's consolidation currency is hedged into the share class currency. Foreign exchange exposure, resulting from assets in the portfolio which are not denominated in the consolidation currency, can remain. NAVs relating to dates on which shares are not issued or redeemed ("non-trading NAVs") in your country may be published here. They can only be used for statistical performance measurements and calculations or commission calculations and cannot under any circumstances be used as a basis for subscription or redemption orders. The published performance represents past data. Past performance may not be a reliable guide to future performance. There is no guarantee that the same yields will be obtained in the future. The value and income of any of your investments may fluctuate with market conditions and may lose some or all its value. The fund may be affected by changes in currency exchange rates, which can have an adverse effect on the value or income of the fund. Performance is shown based on the share class NAV per share (in the share class currency) with dividends reinvested (for distributing share classes), including actual ongoing charges, and excluding subscription/redemption fees and taxes borne by the investor. Inflation was not taken into account. As a subscription fee calculation example, if an investor invests EUR 1000 in a fund with a subscription fee of 5%, he will pay to his financial intermediary EUR 47.62 on his investment amount, resulting with a subscribed amount of EUR 952.38 in fund shares. In addition, potential account keeping costs (by your custodian) may reduce the performance. Indices do not include fees or operating expenses and you cannot invest in them.

Any index data referenced herein remains the property of the Data Vendor. Data Vendor Disclaimers are available on assetmanagement.pictet under "Resources" section.

No part of this material may be copied or redistributed without Pictet Asset Management prior written consent. ©2019 Pictet