Pictet - Asian Local Currency Debt - P dm 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

The index returned 0.12% over the month, with Thailand and Indonesia being the main drivers of positive performance. The Philippines was the largest detractor over the month. The material escalation we have seen in the Russia-Ukraine conflict has dominated the volatility in markets over the past month. The situation has been extremely fluid throughout February, and we ended the month with the tragic development of a full scale invasion by Russia. Following the drastic deterioration, the prices of safe haven assets, such as gold and US treasuries, rallied whilst equities sold off. Oil soared to above $100 for the first time since 2014, with prices settling following the announcement that sanctions on Russia will not target oil and gas flows. US and European leaders have issued a number of sanctions against Russia (and Belarus for its involvement in the invasion of Ukraine), including sanctions on the Russian Central Bank freezing a large share of Russia’s reserves. This led to the a plunge of the ruble and saw the Bank of Russia more than doubling its interest rate from 9.5% to 20%. Such a backdrop of geopolitical tensions brings fresh challenges for a global recovery that was already struggling with elevated price pressures and tightening monetary policy.

Performance analysis

The fund outperformed the index over the month. Active positioning in local rates was positive for performance whereas positioning in Asian currencies was a slight detractor. In local rates, the underweights in the Philippines and South Korea were positive contributors to performance given the rates sell off in the market as a result of the growing inflationary pressures. In the Asian currency space, the overweight in Thai Baht contributed to performance whilst the slight underweight in Chinese Renminbi was a detractor as the currency continued to appreciate. This strengthening of the Chinese Renminbi came despite inflationary concerns and worries of the possible fallout from the Russia-Ukraine conflict. In the proxy rates space, the long-held short position in US treasuries continued to add to positive relative performance, protecting the portfolio from the rising rate environment and reinforcing conviction in the underlying view.

Portfolio activity - overweightings & underweightings

The fund maintained its underweight duration bias throughout the month. The major driver of this was our underweight position in US treasuries. Throughout February we increased the underweight in Indian rates as inflationary pressures continued to mount. We also held underweights in Taiwan, Thailand, the Philippines, India and Malaysia. Positioning in China rates was reduced to neutral as growth slowdown and policy uncertainty saw yields become less attractive. From a bullish perspective, we continued to hold the overweights in Indonesian local rates due to its unique value proposition of positive real yields. Currency exposure in the portfolio remained broadly balanced. We remained structurally bearish on the Hong Kong dollar, slightly increasing our underweight, driven by the continuing human rights failures and the zero-Covid policy. The overweight in Thai Baht remained from last month with the continued conviction that, as travel restrictions are lifted, will see a boost in the tourism sector and as a result economic growth. Geopolitical concerns in Taiwan and the notion that the Central Bank may be behind the curve drove the continued net underweight position in the Taiwan dollar. We also held long positions in Korean won and proxy currencies Australian dollar and the euro.

Market outlook

Russia’s invasion of Ukraine poses significant risks to a global economy already suffering from heightened inflationary pressures. As the military assault continues, we look to monitor the impacts from a wide range of possible outcomes. Manufacturing PMI data from both the US and the EU have indicated stronger growth; however, due to ongoing conflict, there is an expectation that growth could slow. The effect on EM economies is likely to vary depending on how the situation evolves, with alternate commodity exporters, such as Ecuador and Colombia, naturally expected to benefit from the move away from Russian assets. The expected food price increase due to supply disruptions from the conflict may result in some EM countries facing increasing inflationary pressures, particularly those that rely on Ukraine for grain imports. With monetary policy unlikely to be effective in combating inflation shocks, central banks that have been increasingly hawkish since the year began, may begin to scale back their monetary tightening plans. This delay could be a potential relief for EM economies that have battled with rising rates and increased inflation. As the conflict continues, economies are also increasingly facing the risk of stagflation as prices of goods surge and growth expectations contract. We continue to monitor the fast-evolving situation and look to position the portfolio accordingly.

Portfolio strategy

We have become increasingly defensive in relation to local rates as inflationary pressures begin to feed into Asian economies and the recalibration of monetary policy continues. US treasuries dominate this underweight position. Alongside this, we hold short positions in Taiwan and India rates as both countries are increasingly at risk due to heightened interest rate volatility. We will look to reduce any outstanding longs to remain defensive against this changing environment. In addition to the short duration position, the defensiveness at the portfolio level has been reflected in the currency space with the migration to a long dollar position. Long positions in the Korean won and Thai baht were maintained. Underpinning this position is the continuation of the rationale that, as travel restrictions are lifted, the states will see a boost in the tourism sector and as a result economic growth in the state. A new overweight in the Malaysian ringgit was added on sustained improvements to terms of trade via high energy prices, strong export demands and attractive valuations. Conversely, we continued to hold underweights in the Philippine peso and Indian rupee as negative recipients of the terms of trade shocks linked to higher oil prices. Proxy shorts in EUR are driven by the proximity to the Russia-Ukraine conflict, which currently shows no signs of deescalating.

General information

Legal form	Sub-fund of a SICAV
Regulatory status	UCITS
Domicile	Luxembourg
Inception date	07.08.2013
Launch date	07.08.2013
Share class currency	USD
Compartment currency	USD
ISIN	LU0954002050
Reference index	JP Morgan JADE Broad Asia Diversified (USD)
Min. investment horizon (year(s))	3

Fees

Ongoing charges (OCR)	1.54%
Performance fee (excluded from OCR)	-
Management fee (included in OCR)	1.20%
Max. conversion fee	2.00%
Max. subscription fee	5.00%
Max. redemption fee	3.00%

Management team

Mary-Therese Barton
Alper Gocer
Ali Bora Yigitbasioglu
Carrie Liaw

Source: Pictet Asset Management

Further information can be found in the prospectus.

Pictet Asset Management

For further information, please visit our website assetmanagement.pictet

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