Monthly Manager Comments
28.02.2022

Pictet - Global Emerging 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 -6.55% over the past month with the largest drivers of negative return unsurprisingly being Belarus, Russia and Ukraine. 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 benchmark during February. Hard currency positioning as well as off-benchmark positioning in local rates and currencies all contributed positively to performance. The largest positive contributors were net underweights in Russian and Belarusian external debt and Russian F while underweights in Turkish assets across external debt, local rates and FX markets also protected the portfolio. In the proxy rates space, the long-held short position in US treasuries continued to add to positive relative performance and reinforces conviction in the underlying view. The underweight to Kenyan USD debt and the overweight to Lebanese USD debt also added to excess returns. In the tier 1 space, underweights to Romania and the Philippines further increased gross relative returns. Detractors were Hungarian, Argentinian and Egyptian active hard currency positions, highlighting the challenging backdrop for the expression of long positions. The moderate underweight to South African local rates also detracted from net returns.

Portfolio activity - overweightings & underweightings

In light of the challenging backdrop for hard currency debt with sustained and elevated DM rates volatility a major contributor, the team maintained the cautious approach to portfolio construction that has also been exhibited in prior months. In benchmark countries, external debt positioning was fairly consistent during February. In the high-quality space, underweights in Romania and the Philippines dominated exposures while Chile, China, Indonesia and Kazakhstan also contributed to the net short risk position. Against this, relative valuations and supportive market technicals drove overweights in Colombia and Hungary, respectively. In the higher yielding part of the universe, nuanced risks warranted a more balanced positioning across tier 3, albeit still with a net underweight - the largest contributor to this was the short to Turkish external credit. This view was also reflected via a short position in the Lira and Turkish local rates. On the more constructive side, long standing overweights in Angola and Argentina reflected more attractive trade backdrop terms - in light of commodity market strength - along with reform progress and hopes of progress towards an IMF deal, respectively. The overweight in Egypt also contributed to long risk during the month but was trimmed as we reduced risk in reaction to developments in Ukraine as we neared month-end

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 will look to monitor the impacts from a wide range of possible outcomes. Manufacturing PMI data from both the US and 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 Columbia, 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

Naturally the bulk of the team's attention has been directed toward the rapidly evolving situation in Ukraine, with a view to understanding the ramifications for asset markets and the global economy. The complexity of the situation is such that uncertainty remains abundant. Our approach, however, has been to take a step back and identify areas where existing themes are likely to persist or even grow in relevance in light of recent developments. One such area is that of inflation, where the supply shock linked to Russian exclusion from global payment systems will feed into further price increases in key commodity markets going forward. This lead us to maintain and even increase the net duration underweight on the portfolio, along with a broad-based underweight to EM sovereign credit. Core positions remain the short in Turkish assets, with current developments adding impetus to this view. We also remain underweight to Kenya, El Salvador, Jamaica and Costa Rica, along with relative short positions in duration and cash terms in China, Romania, Brazil, Malaysia and the Philippines. Acknowledging the asymmetric implications of the far reaching economic ructions and the structural, commodity-led inflationary backdrop - we continue to express a more bullish stance in beneficiary countries. Angola, Argentina and Oman - as beneficiaries of the terms of trade shock - are held as overweights.

General information

Legal form	Sub-fund of a SICAV
Regulatory status	UCITS
Domicile	Luxembourg
Inception date	23.02.2010
Launch date	23.02.2010
Share class currency	USD
Compartment currency	USD
ISIN	LU0476845010
Reference index	JP Morgan EMBI Global Diversified (USD)
Min. investment horizon (year(s))	3

Fees

Ongoing charges (OCR)	1.38%
Performance fee (excluded from OCR)	-
Management fee (included in OCR)	1.10%
Max. conversion fee	2.00%
Max. subscription fee	5.00%
Max. redemption fee	3.00%

Management team

Mary-Therese Barton
Guido Chamorro
Robert Simpson

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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