PICTET
Asset Management

Pictet - USD Short Mid-Term Bonds - 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

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, particularly as inflation continued to surprise on the upside. 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 in the risk-off move. 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. At the US front end, 1-3Y USD corporate bonds underperformed 1-3Y USD government bonds. Higher-rated corporate bonds resisted better but still delivered negative total return. 1-3Y AA OAS spread widened by 11 bps to 41 bps.

Performance analysis

The fund outperformed on a relative basis against its 1-3Y US government bond benchmark. In absolute terms, returns were negative, in line with global credit and sovereign bond markets that had a difficult month. With that in mind, it was unsurprising that most credit sectors delivered a negative return; however, Energy delivered a small positive, largely thanks to BP. Looking at single names, US banks Citigroup and Morgan Stanley were the top contributors while French bank Societe Generale underperformed due to its indirect exposure to Russia. This was the only name in the fund with direct or indirect exposure to Russia or Ukraine. Being short duration versus the benchmark was a positive contributor as the US 2Y yield moved sharply from 1.2% to 1.6% in just the first ten days of the month.

Portfolio activity - overweightings & underweightings

Top down exposure to government bonds and corporate bonds varied slightly during the month as we increased exposure to the former after the sharp early month spike in yields. By month-end, the exposure stood at 70% to government bonds. At a single name level, we took profit in Emirates Telecom while adding UnitedHealth Group and participating in the new issues of Citigroup and Morgan Stanley seniors. The portfolio was underweight duration for the first ten days of the month before it was moved to a small overweight for the remainder of the month as we felt yield moves were overdone and that it was prudent to be positioned like this during the escalation of the geopolitical situation. Over the month, overall duration increased from 1.3Y to 1.9Y, and the yield of the fund rose by 50 bps to almost 1.6%.

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. While we don’t have any Russian or Ukrainian exposure, 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 escalated, 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. 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

We continue to implement a two-pronged approach: firstly, we aim at optimising yield while effectively managing risk and we are selective in buying credit at this stage of the credit cycle; secondly, we aim at optimising the roll-down effect. Overall, we maintain a balanced view between corporate bonds and government and quasi government bonds. Based on news flows, we may adjust the overall duration and the sector allocation.

General information

Legal form	Sub-fund of a SICAV
Regulatory status	UCITS
Domicile	Luxembourg
Inception date	18.09.2003
Launch date	18.09.2003
Share class currency	USD
Compartment currency	USD
ISIN	LU0175073468
Reference index	JP Morgan US Government Bond 1-3 Years (USD)
Min. investment horizon (year(s))	1

Fees

Ongoing charges (OCR)	0.36%
Performance fee (excluded from OCR)	-
Management fee (included in OCR)	0.15%
Max. conversion fee	2.00%
Max. subscription fee	5.00%
Max. redemption fee	1.00%

Management team

Jon Mawby
Mathieu Magnin
Charles-Antoine Bory

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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