Pictet - EUR Government 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

February saw markets shift focus from inflation-driven policy rate hikes to Russia's invasion of Ukraine, leading to massive risk-off moves across most asset classes. In the US, the probability of future rate hikes rose and the US Treasury curve bear flattened following higher jobs and inflation data. Eurozone CPI rose to record levels, prompting expectations for 40 bps of ECB tightening in 2022. German Bunds and peripheral Europe suffered as a result. Both the Bank of England and Reserve Bank of New Zealand hiked rates 25 bps while multiple EM central banks maintained their hawkish stance with continued rate hikes. Credit spreads widened and yields climbed amid a repricing of global risk assets and borrowing costs. EM Sovereign credit total return fell 5.11%, with CEE responsible for the majority of losses. In Russia, all asset classes suffered heavily, with sovereign credit lower by 64%, local government bonds losing 71%, with the currency (RUB) falling 21%. Russia's Central Bank hiked rates sharply to 20%. In China, the government adjusted 2022 priorities to focus on growth stability, but Chinese USD property bonds still underperformed. The USD ended the month flat after a weak start but rallied on the invasion. The EUR and GBP slid, as did CEE currencies, as geopolitical tensions dominated while LATAM FX, with their hawkish central banks, performed well.

Performance analysis

The portfolio underperformed its benchmark in February. Rates contributed negatively, primarily from our long German Bund positioning. In developed market (DM) sovereigns, underperformance from agencies and supra was balanced by positive contribution from our peripheral positioning. In DM corporates, financials detracted the most, followed by technology holdings. EM spread suffered in general, including our small hard currency EM allocation to an investment grade financials.

Portfolio activity - overweightings & underweightings

In Rates, we increased our portfolio duration overweight, mainly in the short and intermediate maturities of the German Bund curve, reducing our steepener in the longer end of the curve. In the challenging market environment, we reduced risk overall, including trimming investment grade corporate holdings.

Market outlook

What was an already difficult market in fixed income due to stubbornly high inflation and hawkish central banks turned even worse with the Russian invasion of Ukraine. The common denominator is the persistent rise in interest volatility after years of central banks expanding their balance sheets to compress it. In the space of two months, we have witnessed drawdowns in the main fixed income indices not seen in almost 30 years, since the infamous 1994 tightening campaign that led to the Mexican Peso Crisis and eventually to the LTCM and Asian crisis. One of the most striking features of today's fixed income markets has been the spectacular drying up of liquidity conditions, which we believe is due to this re-birth of fixed income volatility and the potential escalation of the war. As a result, correlations sharply jumped, and diversification was very hard to find. We reduced over the last month our exposure to rates and to spread in line with our process. We have reduced our exposure to most illiquid sectors (High Yield and EM corporate bonds). Inflation and a major credit and risk event like the one we are witnessing today make for a very toxic cocktail for financial assets Our concern is that this "oil/confidence shock" makes for an incredibly difficult situation for central banks, raising the risk for a policy mistake. Central Banks may have to choose between bad scenarios.

Portfolio strategy

We believe that for the US Fed, the domestic inflationary threat continues to be the priority as confirmed by J. Powell during his recent testimony to Congress. The ECB is facing a much more negative energy shock and the conflict in Ukraine is a bit too close for comfort. The priority of the ECB might become making sure that fragmentation does not happen, keeping the integrity of the Eurozone. We believe the QE exit will be postponed in Europe and rate hikes pushed back. We have put in place curve steepening positions as a result.

General information

Legal form	Sub-fund of a SICAV
Regulatory status	UCITS
Domicile	Luxembourg
Inception date	12.05.2006
Launch date	12.05.2006
Share class currency	EUR
Compartment currency	EUR
ISIN	LU0241467157
Reference index	JP Morgan EMU Government Bond Investment Grade (EUR)
Min. investment horizon (year(s))	3

Fees

Ongoing charges (OCR)	0.39%
Performance fee (excluded from OCR)	-
Management fee (included in OCR)	0.20%
Max. conversion fee	2.00%
Max. subscription fee	5.00%
Max. redemption fee	1.00%

Management team

Ella Hoxha
David Bopp

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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