Pictet - Global Sustainable Credit - I 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

February was another difficult month for credit, particularly for Euro credit. The global investment grade market ended the month in negative territory leading to a YTD return of -4.7%. This is the worst beginning of the year for the IG market since 1980. For a few months already, the market has been pricing the normalisation of monetary policies to fend off the inflation. As a result, both yield and credit premium were moving up. The Ukrainian crisis changed the market perception and paved the way for a flight to quality regime in which credit premium and risk free assets move in the opposite direction. Given the risk aversion, spread overshot their long term average, reaching levels which could be seen as cheap normal circumstance. The credit market decompresses across the board and asymmetric risk faded. In this backdrop, we have seen significant outflows out of the asset class. Technicals were nonetheless robust on the back of weak primary market and still significant purchases from central banks. February issuance was down 19% y/y, hampered by the slump in corporate supply (-47%). ESG issuance remained flat, with offerings from corporates and financials up 31% and 28%, respectively. Given the geopolitical situation and tension around energy prices, ESG thematic is temporarily less under the radar but the report on climate change from the GIEC reiterated the emergency.

Performance analysis

The fund performance was negative in absolute terms, slightly below the reference index. We are structurally short duration and long spread versus our reference index, which is obviously detrimental in a flight to quality regime. Both duration and spreads proved negative for the month in absolute terms. In relative terms, our duration management proved accretive as we entered the month underweight duration but increased the duration in the second half of the month to mitigate the impact of flight to quality. Within credit, we were negatively impacted by our beta exposure through subordinated debt, BB exposure and long-maturity bonds. Among the negative performers, we can mention BB-rated bonds with the likes of Faurecia and ZF and subordinated debt from high-quality issuers such as Allianz or Axa green bond. We were also invested in Korian, the French nursing home company for the elderly, as well as in Telecom Italia, which were negatively impacted by idiosyncratic news. We sold out Korian given our social concerns while we kept Telecom Italia. We had no direct exposure to Russia or Ukraine. Finally, thanks to our strong credit selection, the names we hold in our portfolio have proven to be more resilient than our universe for the same rating.

Portfolio activity - overweightings & underweightings

We started the month by gradually reducing the risk stance of the portfolio, selling some BB-rated bonds. Our aim was to limit the portfolio exposure to spread decompression in an environment of monetary policy normalisation. We decreased our exposure to relatively expensive names with the likes of Nokia, Sensata, Darling, Fnac and Smurfit Kappa. As a reminder, we started to decrease the portfolio risk in 2021 by slightly reducing the subordinated debt, which traded very tight versus their senior equivalent. Now, given the speed of the correction, credit premium jumped from expensive to cheap versus history, which led us to reconsider subordinated debt from high-quality issuers such as Munich Re, Axa, Orsted and Iberdrola. That being said and despite attractive entry points, we are not adding to BBs given the political situation. Elsewhere, we added exposure to long-dated, high-quality names to benefit from carry. At the single name level, we sold out Korian given the controversy risk, and we bought the green bonds of Segro, a real estate company very well scored by our scorecards. We also bought the green bond of Getlink, a railroad operator. Eventually, we shift exposure from USD to EUR on the back of the European market underperformance. Duration-wise, we've increased again our duration from 6 to 6.6 over the month to take into account a higher risk to flight to quality.

Market outlook

The Ukrainian situation is overshadowing the global landscape. Beyond the human catastrophe, no doubt that the war is going to continue to impact risky assets and more importantly the real economy. Higher commodity prices and related inflation is going to hit the recovery over the medium term. In this environment, ESG thematics are temporarily leaving the floor despite the pessimistic 6th GIEC report. However, in such an environment, we do believe that quality, both in financial and ESG, tend to outperform. Unless there is a massive turnaround in the conflict, we believe that central banks will keep a more cautious stance and government yield should remain contained. Obviously such an environment will penalize the weakest part of the credit market, leading perhaps to an increase in default rate, but the credit premium for the quality is now very attractive. Within ESG, we expect further development to come although at a slower pace on the back of the political situation. Eventually we've started to see NGOs take action again marketing greenwashing like Totalenergies. It seems that greenwashing is under the scope of both regulators and citizens.

Portfolio strategy

In this market backdrop, we aim to maintain an above average level of duration (compared to history) to protect the portfolio against the flight to quality. Within credit, we will continue to gradually increase our beta exposure, switching from senior to subordinated debt of high quality issuers or to longer maturity bonds. We might also start to consider investment into the BB space should the market stabilize a smidgen. Elsewhere, we keep analyzing and adding to ESG-labelled bonds to meet our sustainable investment goal. We hope to see a more active primary market of ESG-labelled bonds in the coming weeks in order find new opportunities. We are paying a particular attention to our utility exposure, which could be exposed to gas supply issue. As such, we prefer to focus in our other ESG investment thematic like clean transportation or well-being.

General information

Legal form	Sub-fund of a SICAV
Regulatory status	UCITS
Domicile	Luxembourg
Inception date	02.09.2013
Launch date	02.09.2013
Share class currency	USD
Compartment currency	USD
ISIN	LU0503631128
Reference index	Bloomberg Global Aggregate Corporate Hedged to USD
Min. investment horizon (year(s))	3

Fees

Ongoing charges (OCR)	0.61%
Performance fee (excluded from OCR)	-
Management fee (included in OCR)	0.40%
Max. conversion fee	2.00%
Max. subscription fee	5.00%
Max. redemption fee	1.00%

Management team

Frédéric Salmon
Philipp Buff

Source: Pictet Asset Management

Further information can be found in the prospectus.

Pictet Asset Management

For further information, please visit our website assetmanagement.pictet