

Pictet - EUR Short Term High Yield - 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 embark in a more aggressive tightening cycle than anticipated. The month ended with a massive risk-off move prompted by warnings and then the reality of Russia's invasion of Ukraine, which in turn triggered severe sanctions that have had a severe market impact across asset classes. Equities were the worst monthly performers with the S&P 500 and STOXX Europe 600 both falling around 3%. Turning to fixed income, the prospect of higher inflation and hawkish central banks hurt sovereign bonds, although there was some relief towards the end in the risk-off move. Major DM credit indices fell with losses shared among IG and HY. 2022 is the worst start of the year for the DM IG market since 1980. The European HY market was negative -3.2% for the month. Spreads widened by 92 bps for the month, leading to a yield-to-worst close to 4.2%. Default rates remain below their long-term average. Nonetheless, the war and margins squeeze linked to inflation might lead to an increase in default going forward. Corporate fundamental remains strong. Technicals were negative for the month driven by large outflows from ETFs and long-dated high yield funds. The short-term universe is holding in well with still some demand for short-dated assets

Performance analysis

The fund performance was negative for the month, in line with the short-term high yield market. Spreads have widened across the board since the third week of January on the back of rising inflation and more hawkish central banks on the one hand, and the war in Ukraine, on the other hand, leading to underperformance of risky assets globally. The flight to quality we have seen since the invasion of Ukraine was not supportive of the performance either. All rating segments proved negative, led by our exposure to single-B rated bonds. At the sector level, Telecom, Basic Industry, Automotive and Energy detracted from performance whereas our payer spread on Itraxx Xover performed and protected the fund to some extent. We were not invested in Chinese RE and don't have any direct exposure to Russia/Ukraine. We do have some indirect exposure to Russia through Nidda Healthcare and Oriflame. On a single name basis, the main negative contributors were Saipem (Italy), ZFF Automotive (Germany), Nidda Healthcare (Germany), Webuild (Italy) and CMA CGM (France). Saipem issued a large and unexpected profit warning whereas Nidda Healthcare was impacted by its small exposure to Russia. Apart from our payer spreads and Tenecco, which benefited from change of control on takeover from Apollo, there was not meaningful contributor to mention.

Portfolio activity - overweightings & underweightings

The risk exposure in the fund increased as spreads widened during the month. Overall, the risk stance of the portfolio has been reduced slightly in October given the market backdrop. In late 2021, we have been adding to the defensive part of market, initiating a payer spread to protect the portfolio, reducing our exposure to cyclical names and the single Bs exposure through maturities and corporate events. Our exposure towards defensive sectors increased, with Telecom and Media representing almost 30% of the portfolio weight. Since the beginning of the year, trading activities were subdued amid escalating political tensions and inflation concerns. The cash portfolio remained almost unchanged. We decided eventually not to add during February as we expect some additional widening in the weeks ahead amid the Russia/Ukraine war. We took profits on our payer spreads, which traded at the widest, and decided to initiate a receiver position to take advantage of the rally should the situation cool down. We like to maintain a decent amount of cash on the portfolio. The portfolio duration increased to 2 years whereas the yield of the portfolio is close to 4.3%, an attractive level not seen since April 2020.

Market outlook

At a macro level, the three main risks we are monitoring 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. 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 escalate, 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 ECB might have to find ways to dial down its recent hawkishness with war and sanctions on its doorstep. In this market backdrop, we do expect some further widening and decompression to come as the downside risk is not 100% priced in the high yield asset class. We acknowledge that fundamentals might deteriorate somewhat in the coming months, impacted by higher input prices and slow down in earnings growth, but overall fundamentals and liquidity positions of high yield credits remain strong, which will keep default rates low. The short-term approach and attractive income offered by wider spreads will allow us to limit any impact of widening in these rising rate and volatile environment.

Portfolio strategy

Q4 earnings season has kicked off in European high yield. The companies are pointing to improving credit fundamentals. The Omicron variant has had limited impact on company's earnings as they adapted well to this disruption. Actual default rates remain at low levels on the back of these strong fundamentals. The key concerns remain the war and inflation and the impact they might have on corporate profit margins. Central bank direction is still uncertain; the ECB could maintain the PEPP programme for longer given the market backdrop and the impact of ongoing war on growth. With the sell-off in the high yield market seen in first two months, valuations are attractive again. We do expect some more widening and increase in dispersion. In this environment, it is essential to focus on credit selection and avoid issuers that are unable protect their margins. We would look to selectively increase our portfolio risk exposure once the spreads have stabilized after widening, which we expect to happen. In the meantime, we continue to participate in credits involved in corporate events, such Refinancing, IPO, bond tenders and M&A, and the reinvest the proceeds in higher carry investments.

General information

Legal form	Sub-fund of a SICAV
Regulatory status	UCITS
Domicile	Luxembourg
Inception date	30.01.2012
Launch date	30.01.2012
Share class currency	EUR
Compartment currency	EUR
ISIN	LU0726357444
Reference index	ICE BofA Euro High Yield Ex Financial BB-B 1-3Y Constrained (EUR)
Min. investment horizon (year(s))	1

Fees

Ongoing charges (OCR)	0.73%
Performance fee (excluded from OCR)	-
Management fee (included in OCR)	0.45%
Max. conversion fee	2.00%
Max. subscription fee	5.00%
Max. redemption fee	1.00%

Management team

Prashant Agarwal
Andrew Wilmont
Frédéric Salmon

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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