

Pictet - Emerging Corporate Bonds - I dy USD

Risk and reward profile

Don't take unnecessary risks.
 Read the Key Investor
 Information Document.

Lower Risk			4	Higher Risk		
1	2	3		5	6	7
Typically lower rewards				Typically higher rewards		

Market review

Emerging corporate bonds market returned -4.8% in February 2022, as represented by the J.P.Morgan CEMBI Broad Diversified Index. EM corporate spread ended the month +87 bps wider during the month. 5-year US treasury yield ended the month 11 bps higher. EM corporate bond issuance came in at USD 25bn in February and remained below the historical average (USD 37bn). The regional mix was split between Asia (at USD 17bn ~ 68%) followed by the Middle East (at USD 4bn ~16%) and Latin America (at USD 3bn ~13%). The rating breakdown at IG:HY was 80%:20% in February. **Data source: J.P.Morgan.

Performance analysis

The fund outperformed its benchmark during February. In term of market performance for the month, the investment-grade segment outperformed the high-yield grade segment, and in terms of region, the Middle East was the outperformer on a relative basis at -1.4%, as all the regions posted negative returns. In terms of country, our overweight in Ukraine and underweight in China real estate continued to be the biggest performance detractors for the month. More specifically, Ukraine assets strongly underperformed given the outbreak of the crisis, leading to bonds being heavily marked down and liquidity vanishing. In China, real estate saw no respite despite being cautiously positioned while TMT continue to detract, driven both by regulatory challenges and the rates selloff. Our underweights in higher-rated countries such as Taiwan, Qatar and South Korea contributed positively to performance. This ties in with our curve positioning and cautious stance on duration, in particular the long-end of the curve, which has been a positive contributor to the fund.

Portfolio activity - overweightings & underweightings

During the month, we continued what we started at the beginning of the year by reducing risks further across all regions focused on outperformers and issuers in caught in idiosyncratic situations where we have lower convictions. The main drivers of risk reduction were China properties, given lack of material support from the authorities, Ukraine via further reduction in corporates such as Metinvest and MHP. During the month, we increased our hedge in Russia to protect the portfolio, which mitigated the negative impact of the Ukraine/Russia assets performance as the worst case of our scenarios came true. We took the Russia hedge out on concerns of operational challenges to settle and replaced it with other credit hedges via Turkey and indices. In Asia, we trimmed our overweight to India. In Latin America, we also reduced our overweight to Brazil and our exposure to Mexico utilities. Overall portfolio's active risk (measured by duration times spread) dropped compared month over month. As of the end of February, the main overweightings in terms of risk by country are in Mexico, Chile and India. At a sector level, the biggest overweightings are in utilities, oil & gas, and financial.

Market outlook

Our outlook on the risk backdrop remains cautious given the challenges faced by central banks with regards to inflation, which is further exacerbated by increasing commodities and energy prices, not to mention the tightening impact that financial conditions will have on credit spreads. We have just entered the phase of stimulus withdrawal from both monetary and fiscal perspective over concerns of uncontrolled inflation. With a first few signs of a slowdown in economic activity, central banks, led by the Fed, are now in an even more difficult spot. We think they will stay on course for now and remain hawkish as there is a lack of material evidence from the economic data to change direction. This remains a challenging environment for fixed-income assets and we expect markets to remain volatile with higher risk premium to be repriced. We continue to think, as a main theme, that short-dated high-yield bonds will fare best in this environment, and so credit selection remains the centre of our focus.

Portfolio strategy

We continue to favour more balance in the portfolio going forward with a tilt toward HY vs IG given the macro backdrop described in the outlook as HY offers more spread cushion especially in the short end of the curve. However, we remain more selective than ever before and we prefer to run lower risks levels overall in the portfolio despite seeing attractive opportunities from spreads widening. Bottom-up selection remains our key focus in line with our investment philosophy. In this environment we will look for 1) issuers that offer good carry with solid/enhancing fundamentals 2) macro / sovereign / sector-led valuation opportunities with spread tightening potential, supported by bottom up fundamental conviction.

General information

Legal form	Sub-fund of a SICAV
Regulatory status	UCITS
Domicile	Luxembourg
Inception date	04.09.2013
Launch date	04.09.2013
Share class currency	USD
Compartment currency	USD
ISIN	LU0953041091
Reference index	JP Morgan CEMBI Broad Diversified (USD)
Min. investment horizon (year(s))	3

Fees

Ongoing charges (OCR)	1.05%
Performance fee (excluded from OCR)	-
Management fee (included in OCR)	0.75%
Max. conversion fee	2.00%
Max. subscription fee	5.00%
Max. redemption fee	1.00%

Management team

Alain Nsiona Defise
Luke Chua

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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