Rothschild & Co
Asset Management

Can markets go off the rails in 2026?

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In an economic environment where balances are being reshaped and uncertainty remains a constant, R-co Valor Balanced relies on a rigorous management process implemented by an experienced team with a proven track record across different market environments to offer investors a tailored solution.

Unshakable equity markets — for how long?

The year 2025 illustrated the markets' ability to advance despite an accumulation of shocks, marking a third consecutive year of gains for major global equity indices[1]. While this momentum highlights the resilience of the economic cycle, it also calls for heightened selectivity and rigorous portfolio construction at a time when equity risk premia have fallen to historically low levels, leaving little room for error.

The U.S. context remains central. As the United States enters 2026, growth remains positive but less vigorous, partly supported by an especially active fiscal stance during an election year, with a Trump administration that could use fiscal and monetary levers despite inflationary risks.

The gradual slowdown in job creation suggests a soft landing for the economy rather than a sharp break, with fiscal stimulus continuing to act as a buffer. This dynamic could prompt the Federal Reserve to adopt a more accommodative tone, as reflected in the growing public debate around the Fed's independence. Donald Trump's selection of Kevin

Warsh as a candidate for the next Chair of the Federal Reserve confirms the U.S. President's desire for greater control. This nomination, anticipated by markets, still requires confirmation by the U.S. Senate in the coming weeks.

On the inflation front, price pressures are easing but remain above historical norms, sustained in part by the lingering effects of tariffs, which are expected to remain an inflationary factor in 2026. Despite these supportive elements, we remain relatively cautious on U.S. assets. The absence of an equity risk premium leaves little margin for error at a time when expectations are high. Lastly, after a highly volatile year in 2025, the U.S. dollar is likely to remain under structural pressure, notably due to the twin U.S. deficits — fiscal and trade — which structurally weigh on the currency but create opportunities for international assets.

In Europe, the political and economic situation remains delicate, yet there are reasons for optimism. First, Germany's stimulus plan could contribute to a more homogeneous and visible recovery across the euro area, even though its effects remain uncertain. Moreover, while the performance gap with the United States has been pronounced in recent years, the gradual improvement in fundamentals and a potential easing of geopolitical tensions could act as positive catalysts for European equities. This could pave the way for a convergence in growth dynamics on both sides of the Atlantic as early as 2026.

China, for its part, is confirming a rebound phase in equity markets, driven by the return of domestic capital flows. More broadly, the weakness of the U.S. dollar is also giving renewed momentum to emerging markets, which, after several years of underperformance, now represent a relevant diversification opportunity.

Conditional yield in fixed income markets

After several years marked by significant rate volatility, the environment is becoming more readable, though not free from uncertainty. In the euro area, the gradual decline in inflation and moderation in wage pressures continue to provide a controlled and transparent framework for monetary policy. At this stage, the market does not anticipate any action from the European Central Bank in 2026.

However, while inflation has stabilized, certain external factors could influence the monetary trajectory. For example, an overly rapid appreciation of the euro against the dollar could prompt ECB intervention. In addition, the effects of Germany's fiscal stimulus remain highly uncertain and difficult to assess.

In any case, fixed income markets will need to absorb significant long-term issuance in 2026, a segment already under pressure. The scale of sovereign financing needs, combined with structural developments such as the reform of Dutch pension funds, could further weigh on long-term yields and support continued yield curve steepening. In this context, fixed income market risk lies less in a sharp rate shock than in a more subtle combination of sovereign debt valuations, fiscal trajectories, and central bank policy trade-offs.

Credit markets present a more nuanced picture. Yields remain attractive, both in

Investment Grade[2] and in higher-yielding segments such as High Yield[3], but the potential for further spread compression appears limited after the sharp tightening observed in 2025. Expected performance is therefore more reliant on carry than on further risk premium compression.

This reality requires increased selectivity, particularly in High Yield, as the refinancing maturities of the 2021–2022 vintages approach. Conversely, certain segments of high-quality European credit — notably financial subordinated debt — continue to offer attractive entry points, supported by strong fundamentals and a significant strengthening of capital buffers in recent years. Overall, fixed income markets no longer appears a simple mechanical hedge, but a genuine source of value creation, provided that interest rate and credit risks are managed actively and with discipline.

How to navigate uncertainty without giving up opportunities?

In an environment combining both anchors and sources of volatility, the very structure of R co Valor Balanced provides a framework to navigate market turbulence. The fund is built on a simple philosophy: offering balanced exposure between the growth engines of global equity markets and the opportunities provided by a fixed income universe that has once again become attractive.

The equity allocation, representing around 40% of the portfolio at the end of 2025[4], is deliberately concentrated around 35 to 50 international stocks selected for the quality of their business models and their ability to withstand contrasting economic cycles. This “Carte Blanche” approach, free of style bias, allows investment across global technology leaders, European and North American industrials, healthcare and luxury champions, as well as high-growth companies with strong innovation intensity.

The fixed income allocation, which accounted for nearly half of the portfolio at the end of 2025, is based on a predominantly Investment Grade universe, diversified across maturities, sectors, and issuers, and managed in line with the proven credit expertise of R co Conviction Credit Euro. The portfolio thus displays a duration close to 4.44[4] and a moderate credit risk.

This fixed income exposure becomes all the more valuable as interest rates have moved into a zone that allows for both carry and convexity, notably through active positioning along sovereign and credit curves. The fund’s architecture therefore offers enhanced flexibility to adapt quickly to market inflections and to cushion periods of stress.

The year 2025 also highlighted the essential contribution of active management, both in overall allocation and within each sleeve. The teams carried out several significant reallocations, reinforcing certain convictions while selectively trimming positions where valuations had become too demanding or visibility less clear. These adjustments reflect the fund’s philosophy: capturing long-term structural dynamics through an actively managed allocation that embodies the fusion of the firm’s two core areas of expertise — Valor & Fixed Income.

In a market environment where risk premia are being reshaped, geographic divergences are widening, and inflation is not fading as quickly as expected, R co Valor Balanced stands out as a flexible allocation solution designed to meet today's investor needs.

Learn more about the fund(s)

R-co Valor Balanced

Check this document on our website

(1) Source: Bloomberg, Rothschild & Co Asset Management, 30/01/2026.
(2) Debt securities issued by companies or governments with a rating between AAA and BBB- on the Standard & Poor's scale.
(3) "High Yield" bonds are issued by companies or governments presenting a high credit risk. Their financial rating is below BBB- on the Standard & Poor's scale.
(4) Source: Rothschild & Co Asset Management, 31/12/2025.

R-co Valor Balanced
Recommended investment horizon: 3–5 years.
SRI risk level: 3/7.
The Synthetic Risk Indicator (SRI) helps assess the level of risk of this product compared with others. It indicates the likelihood that this product will incur losses in the event of market movements or our inability to pay you. We have classified this product in risk class 3 out of 7, which is a low-to-medium risk class and primarily reflects a discretionary management policy exposing the portfolio to equity and interest rate markets with a balanced profile. In other words, the potential losses related to the future performance of the product are at a low to medium level and, should market conditions deteriorate, it is unlikely that our ability to pay you would be affected. The risk indicator assumes that you hold the product for 5 years. If you exit earlier, the actual risk may be significantly different, and you may receive less in return. Main risks: Capital loss risk, discretionary management risk, market risk, credit risk, interest rate risk, currency risk, counterparty risk, and risks related to the use of derivative instruments. This list is not exhaustive; please refer to the "risk profile" section of the SICAV prospectus. Asset allocations and geographic and sector breakdowns are not fixed and may change over time, within the limits set out in the compartment prospectus. The information above does not constitute investment advice or an investment recommendation.

R-co Conviction Credit Euro
Recommended investment horizon: 3 years.
SRI risk level: 2/7.
We have classified this product in risk class 2 out of 7, which is a low-risk class and primarily reflects its positioning in private debt instruments, with an interest rate sensitivity between 0 and +8. In other words, the potential losses related to the future performance of the product are at a low level and, should market conditions deteriorate, it is very unlikely that our ability to pay you would be affected. The risk indicator assumes that you hold the product for 3 years. If you exit earlier, the actual risk may be significantly different, and you may receive less in return.

Past performance is not a reliable indicator of future performance and is not constant over time.

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More information at: www.am.eu.rothschildandco.com

(1) Source: Rothschild & Co Asset Management, 31/07/2026.

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