



In a tense Fixed Income market, where are the opportunities still to be found?



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After several years marked by significant rate volatility, the environment is becoming more readable. In the Eurozone, the gradual decline in inflation and moderation in wage pressures continue to provide a controlled and transparent framework for monetary policy. However, while inflation has stabilized, certain external factors could influence the monetary trajectory.



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Fixed Income markets: pressure on the long end, uncertainty in the US

Last year's global steepening trend, driven by a rise in long-term yields, has brought long-dated yields back to more favorable absolute levels compared with recent years. This move largely reflects increasing refinancing risks for sovereign issuers, combined with reduced central bank support as balance sheet normalization continues.

In Europe, an additional technical factor is putting pressure on the long end of the curve: the Dutch pension fund reform, which is expected to trigger significant reallocations from long-dated bonds toward shorter maturities, and creating structural pressure on very long maturities, raising questions about the sustainability of current yield levels beyond the

20–30 year segment. We therefore avoid the long end of the yield curve.

In the United States, the outlook is less clear. The Federal Reserve has recently resumed Treasury purchases shortly after announcing the end of quantitative tightening, reinforcing expectations of a more accommodative stance. However, this dynamic could be challenged by the designation of Kevin Warsh as Fed Chair, given his publicly stated preference for a smaller central bank balance sheet. As a result, market participants are reassessing the front end of the US curve, questioning whether and how the two rate cuts currently implied for this year should be repriced. Overall, uncertainty remains higher in the US than in Europe, both in terms of growth dynamics and monetary policy direction.

Credit markets: expensive valuations, but solid fundamentals

While yields remain supportive across Investment Grade¹ and higher-yielding segments such as High Yield², the scope for further spread compression appears limited following the sharp tightening observed in 2025. As a result, expected performance increasingly relies on carry rather than on additional risk premium compression.

In this environment, credit markets appear relatively expensive, with spreads having tightened significantly. However, this valuation backdrop is balanced by generally strong corporate fundamentals. Balance sheets remain healthy, default rates are contained, and issuers have largely anticipated their refinancing needs, limiting near-term credit risk. This combination calls for a selective and disciplined approach: while the carry remains attractive, especially in Investment Grade¹, risk premia offer less margin for error, making active credit selection and risk management essential.

This environment calls for heightened selectivity, particularly within High Yield², as refinancing needs from the 2021–2022 vintages gradually come due. In contrast, certain segments of high-quality European credit continue to offer attractive entry points. This is notably the case for financial subordinated debt, which benefits from solid fundamentals and significantly strengthened capital buffers in recent years.

How to navigate this environment with R-co Conviction Credit Euro?

R-co Conviction Credit Euro strategy's has demonstrated a strong and consistent track record across the full credit cycle, highlighting its ability to perform in both supportive and challenging market environments³. Its conviction-driven approach allows the management team to take strong positions when favorable market conditions arise, with the objective of outperforming the benchmark⁴ over the medium to long term. A key strength of the fund lies in its flexibility, both in terms of interest rate sensitivity and credit allocation. The management team actively adjusts duration and exposure across credit segments, depending on market conditions and risk-reward assessments.

Current positioning: prudence and flexibility

In the current context of rising correlations across curves and persistent pressure on the long end, the fund is positioned with a duration close to neutral versus its benchmark, avoiding exposure to the long end of the yield curve. This reflects a cautious stance toward long-dated rates, given refinancing risks and structural technical factors, notably linked to the Dutch pension fund reform.

On the credit side, the approach remains prudent. The portfolio is primarily invested in high-quality senior Investment Grade¹ bonds, with a focus on the intermediate part of the curve. Exposure to long-dated credit (10–20 years) is underweighted, reflecting the combination of duration risk and tight valuations. To further manage downside risk, the strategy also relies on active hedging tools, notably through the purchase of iTraxx Main CDS⁵, providing protection against a potential widening of credit spreads.

Learn more about the fund(s)

R-co Conviction Credit Euro



Check this document on our website



(1) Debt security issued by companies or governments rated between AAA and BBB- by Standard & Poor's.

(2) High-yield bonds are issued by companies or governments with a high credit risk. They are rated below BBB- by Standard & Poor's.

(3) Past performance is not a reliable indicator of future performance and is not consistent over time.

(4) Benchmark : IHS Markit iBoxx EUR Corporates Total Return EUR.

(5) Credit Default Swaps (CDS) are derivatives used to insure against the risk of non-payment of government or corporate debt. This hedge is applied to the crossover portion of the portfolio, i.e. securities rated between BB and BBB on the Standard & Poor's scale.

Disclaimer

R-co Conviction Credit Euro

We have classified this product as risk class 2 out of 7, which is a low riskclass and mainly reflects its positioning on private debt products while having a sensitivity between 0 and +8. In other words, the potential losses associated with 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, otherwise the actual risk may be very different and you may get less in return.

Main risks: Discretionary management risk, interest rate risk, credit risk, counterparty risk, performance risk, risk of capital loss, risk related to the use of derivatives, risk related to temporary acquisitions and sales of securities, specific risk related to the use of complex subordinated bonds (bonds with a maturity of less than one year) of securities, specific risk related to the use of complex subordinated bonds (contingent convertible bonds, so-called «CoCs»)

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

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