

Fixed Income Quarterly Strategy - April 2026



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In an environment shaped by an energy shock linked to tensions in the Middle East and a reassessment of monetary policy expectations, interest rate markets experienced a significant correction. Credit overall remained resilient, reinforcing the importance of selectivity. Against this backdrop, our approach combines a search for value on the short end of the curve with active risk management, while remaining attentive to opportunities offered by Investment Grade¹, certain themes related to artificial intelligence, and subordinated financial debt.



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Specialisation: Govies & Inflation

The risk of inflation expectations becoming unanchored

At the end of 2025, yield curves had steepened markedly, particularly at longer maturities, both in Europe and in the United States. This reflected a rise in the term premium amid increasing public debt levels and the gradual withdrawal of central banks. While inflation appeared to have stabilised towards year-end, the risk of a resurgence remained, whether driven by rising geopolitical tensions or a renewed wave of protectionist measures.



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This risk materialised in early 2026 with the military conflict in Iran. The resulting energy shock was severe, with a sharp surge in oil and gas prices, reigniting inflationary pressures on a global scale. Markets rapidly reassessed policy rate expectations, reversing previously priced-in cuts in favour of a more restrictive short-term stance.

This shift in expectations led to a pronounced rise in yields, with differentiated dynamics across the curve. Short-term yields rose significantly faster than long-term yields, resulting in a marked flattening of yield curves. In the euro area, two-year German government bond yields climbed from around 2% to 2.60%, while ten-year yields moved towards 3.0%². In the United States, the two-year yield approached 4%, while the ten-year reached

4.50% at the peak².

Markets are now pricing in a hawkish³ scenario, anticipating nearly three rate hikes by the ECB in 2026, while the two cuts previously expected from the Fed have been entirely priced out. We believe this interpretation is excessive in light of recent central bank communication, which remains cautious. Monetary authorities appear reluctant to react swiftly to an exogenous shock whose duration and macroeconomic impact remain uncertain.

In the euro area, the ECB's latest forecasts published in March point to moderate growth around 1% in 2026 and a gradual return of inflation towards the 2% target². While a temporary inflation spike linked to higher energy prices is expected, no lasting rise in underlying inflation is envisaged at this stage.

The key risk to monitor remains the potential unanchoring of long-term inflation expectations, which could prompt central banks to adopt a more forceful stance. Such a decoupling could occur through two channels. First, via a price-wage spiral, whereby sustained energy price increases translate into lasting wage demands. Second, through an overly accommodative fiscal response by governments — notably via tax compensation mechanisms designed to absorb the energy shock — which would effectively negate the supply shock and further weaken budgetary balances. Under such a scenario, the long end of yield curves could come under pressure.

In this environment, sovereign spreads have also widened. The 10-year France–Germany spread currently trades around 70–75 basis points, after reaching 55 basis points at the start of the year, while the Italy–Germany spread stands around 90 basis points after having dipped to 60 basis points². This episode highlights that during periods of volatility, perceptions of safety across sovereign issuers can be challenged. We therefore maintain a strong preference for German bonds when investing in government debt.

A credit market that remains resilient

On the credit side, 2025 was marked by notable resilience, with risk premia at historically tight levels and performance largely driven by carry. In early 2026, a modest widening brought valuations back to more acceptable levels, without triggering systemic stress.

Tensions have been concentrated in a few specific segments, notably certain B-rated issuers and the investment-grade real estate sector¹. Outside these pockets of fragility, the market has remained solid: flows have stayed contained and primary markets have remained open.

At this stage, the absence of a significant widening does not warrant a major repositioning in credit. Nevertheless, we have partially reduced certain hedges to allow for a measured re-exposure, while maintaining a highly disciplined approach to overall risk management.

Value creation rests primarily on issuer selection and maturity management. We favour intermediate maturities, typically between five and seven years, which offer carry close to long-dated bonds but with more contained volatility. Conversely, we remain cautious on very long maturities, where the risk-return profile appears less attractive.

In High Yield⁴, our approach remains prudent and highly selective. While yields are attractive, this segment concentrates higher risks related to the economic cycle, refinancing needs at higher costs, and idiosyncratic event risk. We favour higher-quality exposure, predominantly rated BB, and remain positioned on short maturities offering greater visibility.

Our positioning: convexity, protection and tactical arbitrage

Against this backdrop, our positioning remains cautious and flexible. Overall duration sensitivity is maintained close to neutral, at around 4.65. We continue to avoid the long end of the curve, limiting exposure both to government bonds and corporate debt. Our main positioning adjustment in March focused on the front end of the curve, with increased exposure to two-year German government bonds, reflecting our view of a likely ECB status quo. At the same time, we have maintained our exposure to ten-year German bonds, which continue to play a protective role in the event of a recession.

In credit, we favour high-quality Investment Grade¹, with an average rating of A- / BBB+, and a bias towards intermediate maturities, mainly between 2028 and 2032.

Outlook and themes to watch

Our central scenario assumes stable policy rates during the first part of the year, as central banks adopt a wait-and-see approach in the face of a potentially transitory exogenous shock. Risks nonetheless remain elevated, both macroeconomic and geopolitical, justifying a continued focus on resilience and portfolio protection. At the same time, we maintain an opportunistic stance, and three investment themes in particular stand out.

Private and unlisted debt: Systemic risk appears contained at this stage, but visibility remains limited due to at times insufficient transparency. Bond prices of certain issuers already reflect highly deteriorated scenarios, which we do not believe are justified by fundamentals or by the level of protection we enjoy as creditors.

Subordinated financial debt: Following the normalisation process since 2023 and the strong rebound in bank AT1 instruments, valuations now appear broadly fair. By contrast, insurance RT1 instruments offer more attractive relative value, benefiting from higher issuance premia and lower market familiarity. We are therefore pursuing opportunistic switches from AT1 to RT1, supported by rigorous issuer selection.

Finally, the **rise of artificial intelligence** is also influencing bond markets through a significant increase in debt issuance by large technology companies. While this dynamic may temporarily weigh on credit spreads, it also creates opportunities, particularly in highly rated new issues. Analysis is conducted on a case-by-case basis, distinguishing issuers capable of turning these investments into a durable competitive advantage.

Our central scenario for 2026 aims to capture still-attractive carry while actively protecting portfolios through rigorous risk management. In a volatile environment, this discipline

may allow us to seize opportunities under more favourable conditions. Selectivity, prudence and agility therefore remain the cornerstones of our approach.

Learn more about the fund(s)

R-co Valor Bond Opportunities



R-co Conviction Credit Euro



Check this document on our website



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

(2) Source: Bloomberg, April 2026.

(3) A speech, central bank, or monetary policy official is said to be hawkish when its priority is fighting inflation.

(4) Debt securities issued by companies or governments with ratings between AAA and BBB- on the Standard & Poor's scale.

(5) Source: Rothschild & Co Asset Management, March 31, 2026.

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

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