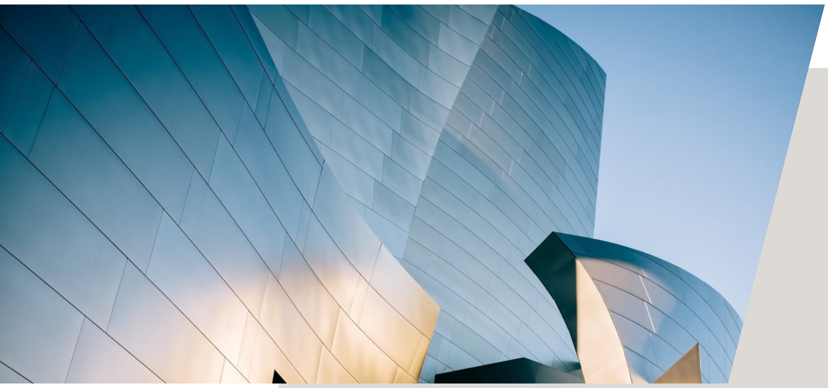
Rothschild & Co
Asset Management



Inevitable volatility as a source of opportunities on Fixed Income markets

Emmanuel Petit
General Partner, Head of Fixed Income

Julien Boy
Fixed Income Portfolio Manager
Specialisation: Govies & Inflation

The ambitions of the new U.S. president and Europe's economic sluggishness are creating strong divergences in macroeconomic outlooks on either side of the Atlantic. In this environment, a flexible and responsive approach will be key to seize opportunities that may arise on the Fixed Income markets from decisions with contradictory effects across the different zones.

The decoupling of macroeconomic cycles between Europe and the U.S. is set to be a defining feature of fixed income markets in 2025. This phenomenon, which began in late 2024 following the U.S. election, is already reflected in rate expectations for 2025: unchanged in Europe with still 4.5 cuts projected, whereas in the U.S., expectations have plummeted from nearly 8 anticipated cuts last September to just one today[1]. Long-term rates follow a similar pattern, remaining stable in Europe while rising by more than 90 basis points in the U.S. since the Fed's first cut in September[2].

From a macroeconomic perspective, this divergence is explained by upward revisions in inflation and growth forecasts following Donald Trump's return to the White House. His statements have raised concerns about inflation risks, though his administration's policies may have only a transient impact on inflation but a more lasting effect on growth.

Moreover, sovereign debt refinancing emerges as another major issue. With a persistent deficit, the U.S. will need to refinance $2 trillion in 2025[3], the same amount as in 2024. In

Europe, the figure reaches €800 billion, against a backdrop of central banks reducing their balance sheets[4].

All these uncertainties are pushing term premiums higher and could steepen yield curves. Between cyclical divergence and refinancing concerns, volatility appears inevitable, generating opportunities on both sides of the Atlantic.

On the credit markets, spreads[5] have tightened significantly since 2022. In the U.S. and emerging markets, valuations are reaching levels rarely seen in the past 20 years, making these markets unattractive. Conversely, European Investment Grade[6] bonds still offer an interesting premium, particularly in non-cyclical sectors, which tend to be more resilient to macroeconomic shocks. Similarly, financials continue to offer an attractive premium, supported by strong solvency and profitability ratios.

In the High Yield[7] segment, a selective approach is essential. The primary market for B and BB-rated issuers remains dynamic, driven by strong investor appetite. Many companies are anticipating the refinancing of their 2026-2027 maturities and extending their maturity horizon.

In this environment, the investment strategy of R-co Valor Bond Opportunities proves particularly relevant. This flexible fund captures opportunities across global fixed income and credit markets, investing in traditional bonds as well as derivatives (futures, interest rate swaps, CDS[8]). Its active approach targets volatility below 5%, combining macroeconomic analysis, credit research, and quantitative screening to select directional and relative value strategies.

Relative value strategies, based on identifying historical anomalies through quantitative screening, are particularly effective. We compare absolute and relative yield levels across all maturities in main markets and analyse credit curve andand spread between bonds and- CDS spreads.

The portfolio is currently positioned to benefit from falling rates in Europe, particularly through inflation-linked bonds, while favoring short maturities (2 to 5 years) in the U.S. Among our key convictions, we are betting on the convergence of European rates, particularly between the UK and the Eurozone. Additionally, we believe U.S. interest rate volatility is overestimated and seek to capitalize on it through options selling.

On the credit side, we focus on carry strategies while limiting directional risk. We invest in high-rated Investment Grade bonds (A and BBB+), benefiting from relative undervaluation in this segment, and hedge them via CDS to contain the volatility of risk premium. Our High Yield exposure focuses on issuers likely to refinance early, as well as European financial subordinated debt with a call date of less than three years.

Learn more about the fund(s)

R-co Valor Bond Opportunities

Check this document on our website

[1] Source: Consensus, February 2025.
[2] Source: Bloomberg, 31/01/2025.
[3] U.S. Department of the Treasury, February 2025.
[4] Source: Deutsche Bank, 31/12/2024.
[5] Yield spread between a bond and a risk-free government security of equivalent maturity.
[6] A debt security issued by corporations or governments with a credit rating between AAA and BBB- according to Standard & Poor's scale.
[7] High Yield (or high-yield) bonds are issued by corporations or governments with a high credit risk. Their financial rating is below BBB- according to Standard & Poor's scale.
[8] A Credit Default Swap (CDS) is a derivative instrument that provides protection against the risk of default on debt issued by a government or a corporation. This hedge applies to the crossover segment of the portfolio, meaning securities rated between BB and BBB on Standard & Poor's scale.

Risk Classification: SRI 2/7.
We have classified this product in risk category 2 out of 7, indicating a low-risk level, primarily reflecting a discretionary management strategy that diversifies exposure to fixed income markets over the medium term. In other words, potential losses from this product's future performance are at a low level, and if market conditions were to deteriorate, it is highly unlikely that our ability to pay you would be affected. The risk indicator assumes you hold the product for three years; otherwise, the actual risk may differ significantly, and you could receive a lower return. Investors should ensure that the fund's shares or units are registered in their respective jurisdictions before investing. The full PRIIPS KID/prospectus is available on our website: www.am.eu.rothschildandco.com. The net asset value (NAV) is also accessible on our website.

About the Asset Management's division of Rothschild & Co

As the specialised asset management division of the Rothschild & Co group, we offer personalised asset management services to a broad client base of institutional investors, financial intermediaries and distributors.

Our development is focused on a range of open-ended funds, marketed under five strong brands: Conviction, Valor, Thematic, 4Change and OPAL, leveraging our long-term expertise in active management with conviction as well as in delegated management. Based in Paris and established in 9 European countries, we manage more than 38billion euros and employ nearly 170 people.

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

France

29, Avenue de Messine
75008 Paris
+33 1 40 74 40 74

Belgium – Netherlands – Luxembourg

Rue de la Régence 52
1000 Bruxelles
+32 2 627 77 30

Switzerland

Rothschild & Co Bank AG
Rue de la Corraterie 6
1204 Genève
+41 22 818 59 00

Italy

Passaggio Centrale 3
20 123 Milano
+39 02 7244 31

Germany - Austria

Börsenstraße 2 - 4
Frankfurt am Main 60313
+49 69 299 8840

Spain

Paseo de la Castellana 40 bis
28046 Madrid
+39 02 7244 31

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