



Is flexibility the key to success in Fixed Income markets?



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With yields tightening on the fixed income markets, where can opportunities be found and how can they be seized when they arise? Emmanuel Petit and Samuel Gruen share their perspective on navigating fixed income markets.



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What should we expect from the Fed Chair's recent policy shift?

At its latest meeting, the Federal Reserve cut rates by 25 basis point (bp) its first reduction in nine months. The debate now centers not on the direction of policy but on the pace and scale of future cuts. While the Fed is signaling a gradual approach, markets are pricing on a more aggressive path, with two additional cuts by year-end and three more the following year. The Fed is facing a dilemma: should it prioritize its mandate of price stability or full employment? Inflation remains above the 2% target and is expected to rise further in the coming months, partly due to tariffs. The labor market, meanwhile, is showing signs of slowing, with workforce growth now below 1% over the past twelve months¹.

On the European side, Christine Lagarde has hinted that the June cut in the deposit rate to 2% may mark the end of the easing cycle. This has reinforced the decoupling between short-term rates in the U.S and eurozone, a trend that began in late 2024. At the long end of yield curves, correlations remain high and the steepening trend persists. With debt burdens rising globally, investors are demanding additional term premiums. Yet in our view, these are not sufficient to offset the risks from widening fiscal deficits and questions over central bank independence. We are therefore waiting for a volatility shock before re-entering more decisively. The divergence in fundamentals between sovereigns and corporates is reflected in the volatility gap between credit and rates. Investors are

anticipating volatility four times higher on rates than on credit spreads². This differential, combined with attractive carry, continues to support the appeal of this asset class, despite historically high valuation levels. In this context, adjusting duration and sector allocation³, complemented by careful issuer selection, will be key. We are therefore convinced that flexible strategies are best positioned.

How does this flexibility translate into your management?

For our flagship fund, R-co Conviction Credit Euro, flexibility means being able to draw on every performance driver available in bond markets. We can hold any type of debt and deviate from our benchmark, the IBOXX Euro Corporates, while maintaining a moderate tracking error⁴. We seek opportunities in “fallen angels”⁵ and unrated bonds to capture excess risk premiums, and we are not afraid to step in during periods of market stress. Our objective is to generate value while keeping risk control, convexity, and opportunity cost firmly in mind.

This notion of flexibility is also embodied by R-co Valor Bond Opportunities. Through this investment solution, we can take fixed income positions across all geographies, asset classes, and product types, whether cash or derivatives. The investment universe is therefore particularly broad, and the absence of a benchmark reinforces the need for rigorous and precise risk management. While keeping volatility below 5% over the investment horizon, our goal is to deliver an annual performance exceeding ESTER⁶ by 2%.

How do you identify these opportunities?

Our analysis relies on observing valuation levels across different markets, both from a historical perspective and in relative comparison. Quantitative screening allows us, for example, to identify the steepest or flattest curves within a given market, or to detect whether financial subordinated debt is historically attractive compared to senior debt. This initial reading must then be tested against our fundamental analysis, which aims to validate or challenge the observed valuation levels. We seek to understand the assumptions behind current investor positioning, and above all, to anticipate what might alter their perception.

It is at this stage that our conviction takes shape, by taking market positions and staying reactive to daily signals, especially during periods of high volatility, when investors prioritize liquidity without necessarily distinguishing between issuers. For example, we recently identified that certain U.S. dollar-denominated bonds from European banks were trading at historically wide spreads compared to the same issuers' euro-denominated debt. To capture this anomaly, we established a relative-value position in the R-co Valor Bond Opportunities fund, hedging issuer-specific risk with a CDS⁷, in order to capture this spread differential. This type of opportunity can also be exploited directionally across our range, as our relative-value approach allows us to continuously optimize portfolio construction. If we have a favorable investment case on an issuer, which bond should we favor? A short or long maturity? A senior or subordinated bond? These are precisely the questions our methodology is designed to answer.

How is this reflected in your portfolios today?

Currently, high-quality Investment Grade⁸ credit (rated A) with maturities of three to seven years looks particularly attractive. Spreads still appear too wide compared with the historically low default experience of this segment. While these bonds remain sensitive to rate moves, the additional yield more than compensates for this risk.

We are also seeking optimized sources of carry, such as subordinated financial debt. This segment perfectly illustrates our approach: quantitative analysis highlights abnormally flat credit curves, while our fundamental analysis shows no deterioration in the sector's fundamentals. We can therefore express our conviction by favoring the front end of the curve in these subordinated issues.

Finally, we remain particularly vigilant regarding rapid deteriorations among certain issuers. Since the beginning of the year, the market has been quick to punish the weakest player in a sector. It is in these moments that our flexibility must fully express itself: we need to determine swiftly whether this is a market overreaction or an early sign of deeper deterioration. Analysts' work is then crucial in identifying whether the situation represents a genuine opportunity.

Learn more about the fund(s)

R-co Valor Bond Opportunities



R-co Conviction Credit Euro



Check this document on our website



(1) Source: U.S. Bureau of Labor Statistics, September 2025.

(2) Yield spread between a bond and a loan with an equivalent maturity considered "risk-free."

(3) Approximate measure of the period after which a bond's yield is no longer affected by interest rate fluctuations.

(4) Standard deviation between a fund's yield and its benchmark index.

(5) Issuers whose rating, originally Investment Grade, has been downgraded to High Yield.

(6) For the EUR portion.

(7) A credit default swap (CDS) is a derivative product that provides insurance against the risk of default on a debt issued by a government or company. This coverage is applied to the crossover portion of the portfolio, i.e., securities rated between BB and BBB on the Standard & Poor's scale.

(8) Debt securities issued by companies or governments rated between AAA and BBB- on Standard & Poor's scale.

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

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