



Fixed Income Quarterly Strategy - October 2025



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While the U.S. economy remains marked by persistent uncertainties—both in terms of inflation and activity—weak signals in certain credit segments call for caution. In the Eurozone, there are reasons for hope, with the rollout of stimulus plans and the ECB’s ability to support the economy.

A Desynchronization of Central Banks

The monetary landscape is currently characterized by a desynchronization of major central bank policies. In the United States, the Fed resumed its rate-cutting cycle in September after nine months of status quo, with two more cuts expected by year-end. The institution remains torn between its dual mandate: price stability—while inflation remains above 2%—and full employment, in a context where the unemployment rate rose from 3.4% in Q2 2023 to 4.3% in August¹. The Trump administration’s economic policy also sends mixed signals. The fiscal support from the “One Big Beautiful Bill” is expected to take effect from 2026, notably through immediate amortization of investment expenses for U.S. companies, while the inflationary impact of protectionist measures is likely to give way to a negative impact on household consumption. Additionally, the budget shutdown² is disrupting the functioning of the federal administration. Since October 1, 2025, many public services have been halted or are operating at reduced capacity, and the publication of major economic statistics—especially employment data—has been suspended. This situation complicates the assessment of the real health of the U.S. economy, both for the Fed and for markets.

In Europe, the European Central Bank has announced the end of its monetary easing cycle. The main question now is whether the Eurozone can regain momentum next year, notably thanks to the German fiscal plan, and whether this recovery will be sustainable. While



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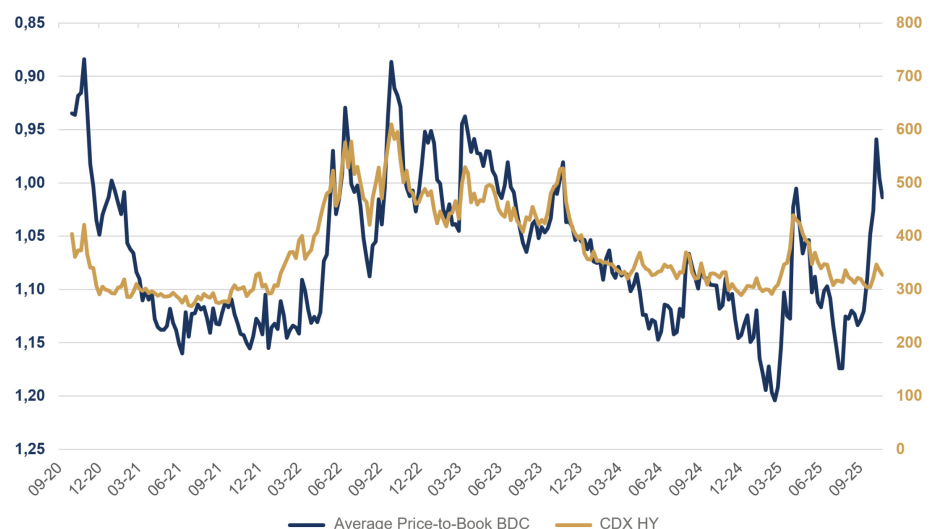
some economists forecast a positive impact of 0.4% on growth in 2026 and up to 0.8% by 2029, the ECB expects growth of only 1% next year¹. With inflation stabilized around its 2% target, the ECB can afford to wait before reacting in either direction. On the idiosyncratic side, French risk could hinder the effective transmission of monetary policy in the Eurozone. The OAT-Bund spread briefly exceeded 85 basis points in early October, reflecting political uncertainty in France, before falling back below 80 basis points¹. However, visibility will likely remain low until the 2027 presidential election.

Beyond central bank decisions, the steepening of the long ends of yield curves reveals growing uncertainties. This phenomenon, observed this year across all developed countries, reflects inflation that may remain durably above central bank targets, with growth stimulated by fiscal stimulus and/or investment plans. These additional financing needs also fuel the term premium demanded by investors in a context of already deteriorated public finances.

High Yield and Private Debt: Weak Signals Accumulate

Recent events—such as the bankruptcy of Braskem in Brazil’s chemical sector, First Brands in the U.S., and Tricolor—are fueling uncertainty and highlighting risks linked to off-balance-sheet financing and private debt. The U.S. regional banking sector is also showing signs of stress, as seen with Zion Bancorp, which suffered a \$50 million³ loss due to fraudulent exposure in commercial real estate. Nevertheless, the credit market does not appear concerned about potential contagion, thanks to solid fundamentals and the inherent transparency of this market. Investment Grade⁴ continues to benefit from attractive carry, helping to offset rate volatility. In High Yield⁵, demand remains strong, but investors are increasingly selective, avoiding B- and CCC-rated issues, as well as certain cyclical sectors such as chemicals.

Price-to-Book of Business Development Companies vs. spread CDX HY



Source : Rothschild & Co Asset Management, october 2025

Outlook and Positioning

In this complex environment, management flexibility is essential to adjust portfolio positioning when needed. Carry remains the main driver of performance in a high-rate context. European Investment Grade⁴ credit remains favored, particularly for maturities of three to seven years and in defensive sectors, which help mitigate economic uncertainties. Financial subordinates, though more volatile, benefit from solid fundamentals and attractive yields. In the High Yield⁵ segment, selection focuses mainly on BB-rated issuers, with particular attention to sector dispersion. Increased valuation monitoring and the implementation of reasonably priced hedges help preserve carry without lowering portfolio credit quality. Regarding France, caution remains warranted given the lack of political visibility and a risk premium that is still considered too low.

Vigilance and Agility: Key Words for an Uncertain Cycle

The desynchronization of monetary policies, rising fiscal and political risks, and the emergence of weak signals in the credit market call for active, selective, and flexible management. The priority remains preserving carry and portfolio credit quality, while staying alert to rapid changes in the macroeconomic and financial environment. In this context, the ability to quickly adjust exposures and focus on the most resilient segments will be key to generating performance.

Learn more about the fund(s)

R-co Valor Bond Opportunities



R-co Target 2030 IG



R-co Conviction Credit Euro



R-co Target 2029 HY



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(1) Source: Bloomberg, October 2025.

(2) Political situation in which the US Congress fails to vote on the funds necessary for the government to function, leading to a partial shutdown of its activities.

(3) Source: Reuters, 10/20/2025.

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

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

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