Rothschild & Co
Asset Management

The rise of the short end



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In the current environment, bonds with shorter maturities have once again become particularly attractive. They offer high levels of carry while historically exhibiting lower volatility than the broader market. Positioned within the Investment Grade and High Yield universes respectively, R-co Conviction Credit SD Euro and R-co Conviction High Yield SD Euro implement this approach through two distinct investment strategies.

A favourable backdrop for shorter maturities

The outbreak of conflict in the Middle East has fundamentally changed the picture compared with the beginning of the year. Rising inflation expectations, driven by higher commodity prices, have resulted in a significant repricing of monetary policy expectations on both sides of the Atlantic, with investors still anticipating two further rate hikes from both the Fed and the ECB. As a result, interest rates have risen broadly, while yield curves have flattened. In Germany, for example, the two-year yield has risen by 90 basis points since the start of the year, compared with 40 basis points for the 10-year yield and only 15 basis points for the 30-year yield. [1]

In credit markets, spreads[2] have remained relatively resilient despite widening in October. Most of the available premium remains concentrated at maturities below five years and, in our view, extending further along the maturity curve is no longer sufficiently rewarded. In some areas of the High Yield[3] market, the curve is even inverted. With uncertainty surrounding the path of interest rates remaining high, this backdrop further strengthens

the relative appeal of shorter maturities. It is precisely within these segments that R-co Conviction Credit SD Euro and R-co Conviction High Yield SD Euro are positioned.

A greater cushion at shorter maturities

For both Investment Grade[4] and High Yield, when considering return per unit of volatility, as measured by the Sharpe ratio[5], these are the only two asset classes to record a ratio above 1, placing them among the segments with the most favourable risk-adjusted returns in the European credit universe[6].

Their lower interest-rate sensitivity also limits the impact of rate movements on valuations. This is complemented by two potential sources of return: carry and roll-down[7]. Assuming an unchanged yield curve, as a bond gradually approaches maturity, its price may appreciate. In an environment where yield has once again become a key driver of fixed-income markets, these mechanisms provide an additional cushion that can help mitigate movements in both interest rates and credit spreads.

One-year breakeven[8] provide a tangible measure of this capacity to absorb market movements, by indicating how far yields can rise before returns turn negative over a one-year horizon. Including the roll-down effect, they stood at 289 basis points for the 1-3 year Investment Grade segment as at 23 October, compared with 115 basis points for the Investment Grade universe as a whole[9]. In euro High Yield, breakevens stood at 358 basis points for the 1-3 year segment, compared with 193 basis points for the all-maturity index[9].

Historical data also point to a relatively swift recovery following periods of market correction. Excluding the Covid-19 crisis and the inflation shock triggered by the war in Ukraine, eight of the ten drawdowns[10] analysed were recovered in less than 70 days[11]. These more extreme episodes nevertheless serve as a reminder that shorter maturities do not mean an absence of risk.

Investment Grade: turning the rate shock into an opportunity

The rise in interest rates has created a particularly favourable backdrop for Investment Grade bonds with shorter maturities, offering an attractive entry point. However, the strategy implemented through R-co Conviction Credit SD Euro goes beyond maintaining structurally low duration. It is based on actively managing the portfolio's interest-rate sensitivity throughout the cycle. In a falling-rate environment, for instance, maintaining greater sensitivity than the index allows the portfolio to benefit more fully from bond price appreciation, while also capturing the roll-down effect.

Portfolio construction also draws on careful selection of issuers and debt structures. This is particularly important within financials, which represent a significant part of the Investment Grade universe. Banks' solvency, capital structures and the level of subordination of individual securities are analysed to strike an appropriate balance

between carry and credit risk.

High Yield: capturing carry in an environment of contained volatility

R-co Conviction High Yield SD Euro takes a different approach, reflecting the greater degree of selectivity required by this asset class. Within High Yield, performance is more dependent on carry, movements in credit spreads and companies' ability to service or refinance their debt. Shorter maturities reduce the period of exposure to a potential deterioration in fundamentals and generally provide greater visibility over the repayment or refinancing of individual securities.

The High Yield segment currently offers higher levels of carry than Investment Grade, while historical performance has also delivered higher returns. Within this segment, we favour higher-rated issuers. The strategy can also make use of credit derivatives, including tranches of iTraxx CDS[12] indices, allowing part of the issuer-specific credit risk to be replaced with market risk. These instruments can help offset some of the yield foregone by avoiding exposure to the most vulnerable issuers.

Two complementary approaches

The current environment calls for a degree of caution. At prevailing yield levels, bonds are once again playing a defensive role within a broader allocation, particularly at the shorter end of the curve, allowing investors to capture attractive levels of yield without taking on excessive duration risk.

Against this backdrop, R-co Conviction Credit SD Euro and R-co Conviction High Yield SD Euro offer particularly attractive strategies from a risk-adjusted return perspective, while reflecting two distinct investment philosophies. The former takes a more opportunistic approach to the Investment Grade market, seeking to capture opportunities arising from the current environment. The latter is intended to play a more structural role within an allocation, making the timing of the investment less critical.

R-co Conviction Credit SD Euro – Main risks: risk associated with discretionary management, interest rate risk, risk associated with the use of derivative instruments, credit risk, risk related to non-financial (ESG) criteria, sustainability risk, counterparty risk, risk that the Sub-Fund's performance may not meet its objectives and that the Sub-Fund may not at all times be invested in the best-performing markets, capital loss risk, risks related to collateral management, legal risk.

R-co Conviction High Yield SD Euro – Main risks: risk associated with discretionary management, capital loss risk, credit risk, High Yield risk, interest rate risk, risk related to non-financial (ESG) criteria, sustainability risk, counterparty risk, specific risk associated with the use of complex subordinated bonds (contingent convertible bonds, known as "CoCos").

As these products provide no protection against market fluctuations or capital guarantee, you could lose some or all of your investment.

Before investing, it is essential to read the PRIIPs KID and the fund prospectus carefully, in particular the sections relating to risks and fees, available on the Rothschild & Co Asset Management website: am.eu.rothschildandco.com.

Learn more about the fund(s)

R-co Conviction Credit SD Euro

R-co Conviction High Yield SD Euro

Check this document on our website

(1) Source: Bloomberg, 30/10/2026.
(2) The yield spread between a bond and a debt security of equivalent maturity considered to be "risk-free".
(3) High Yield bonds are issued by companies or governments presenting a high level of credit risk. Their credit rating is below BBB- on the Standard & Poor's rating scale.
(4) Debt securities issued by companies or governments with ratings ranging from AAA to BBB- on the Standard & Poor's rating scale.
(5) A measure of the difference between the performance of a portfolio of financial assets and the risk-free rate, divided by the standard deviation of its return, as measured by volatility.
(6) Source: Rothschild & Co Asset Management, December 2025.
(7) The potential appreciation in the price of a bond as it approaches maturity and "rolls down" the yield curve, where the curve is upward sloping and remains relatively stable.
(8) The increase in yields that a bond's return can absorb before performance turns negative.
(9) Sources: ICE, Rothschild & Co Asset Management, 23/10/2026.
(10) A decline in the value of an investment from a peak to the trough reached before it recovers.
(11) Sources: Bloomberg, Rothschild & Co Asset Management, 23/10/2026.
(12) A Credit Default Swap (CDS) is a derivative instrument that provides protection against the risk of default on debt issued by a government or company.

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 leveraging our long-term expertise in active management with conviction as well as in delegated management. Based in Paris and operating in 10 European countries, we manage more than 50 billion euros and employ nearly 200 people[(1)].
More information at: www.am.eu.rothschildandco.com

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

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