



Fixed Income Quarterly Strategy — July 2024



Emmanuel Petit
General Partner, Head of Fixed
Income

2024 appears to be a year of transition for fixed income markets, with robust growth and persistent inflation gradually postponing the central banks' monetary easing cycle.



Julien Boy
Fixed Income Portfolio Manager
Specialisation: Govies & Inflation

Decreases in rates? YES, but how much?

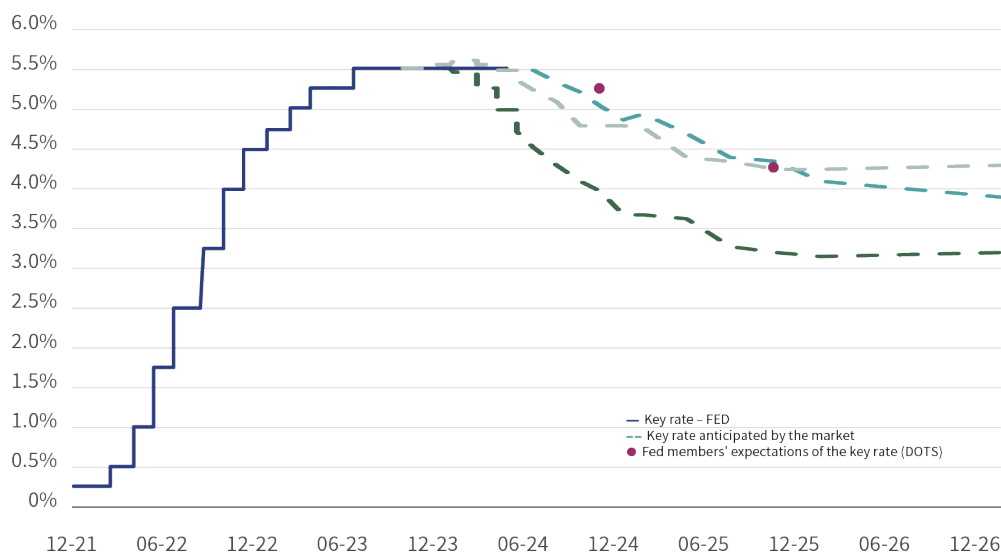
After an initial rate cut in early June, which was widely anticipated, the ECB continues to emphasize that it remains 'data dependent.' The uncertain macroeconomic environment therefore leaves doubts about future decisions. The increase in political risk resulting from the dissolution of the French National Assembly is a new variable that investors are now taking into account. This unexpected political event provoked slight turmoil, with only moderate contagion at the European level. While the OAT-Bund spread widened by 35 basis points (bps) to reach 82 bps on June 27¹, its highest absolute level since 2012, the level of French rates actually changed very slightly.



Samuel Gruen
Fixed Income Portfolio Manager
Specialisation: Relative Value

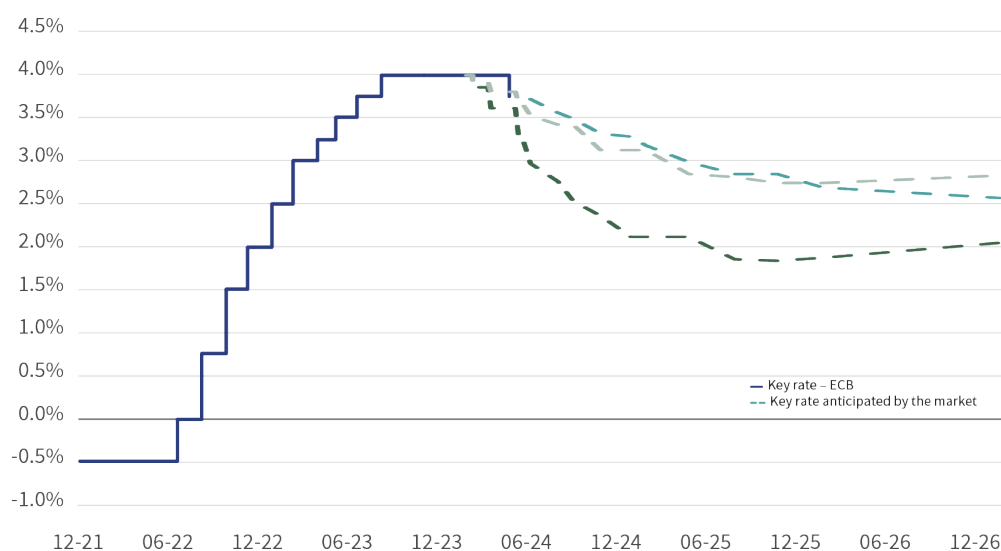
In the United States, markets expect almost three rate cuts by the end of the year, including one as early as September². Four further cuts are also envisaged next year. While we believe a first one is likely in September, the extent of the monetary easing cycle is open to debate, given the persistence of inflation in the services sector and the risk of a rebound on the goods prices. The labor market is gradually slowing down but is still far from a recessionary level. The publication of macroeconomic data (employment reports, CPI³ and PCE⁴ inflation) before next September meeting will be decisive in determining the US central bank's future policy stance.

Fed rates forecasts – United States



Sources: Bloomberg, Fed, ECB, Rothschild & Co Asset Management – June 2024.

ECB deposit rate forecasts – Euro zone



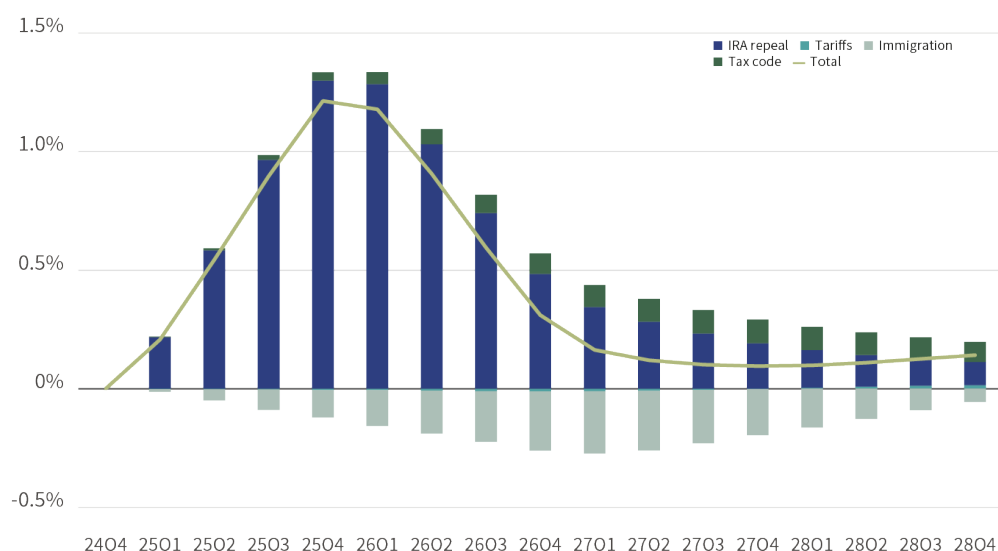
Sources: Bloomberg, Fed, ECB, Rothschild & Co Asset Management – June 2024.

The outcome of the US presidential election, which will take place next November, will probably be crucial for the trajectory of US inflation. Despite all the new uncertainties resulting from the withdrawal of Joe Biden from the race, Donald Trump remains, for now, the frontrunner in the polls. However, his program includes several measures with inflationary effects (60% tariffs on all Chinese imports and 10% universal tariffs on all

imports, halt illegal immigration, repeal of the Inflation Reduction Act and extension of expiring tax cuts)⁵ and their implementation could make it difficult for inflation to return to the 2% target. An easing of the Fed's monetary policy in the coming months would then become highly unlikely.

Higher inflation in the scenario under the Republican Sweep Scenario

CPI index, deviation of annual growth from base, bps



Source: BLS, Moody's Analytics, July 2024.

Pronounced tightening between geographical areas and in the credit market

This second quarter of 2024 was marked by a significant tightening of rates between countries, particularly between the United States, whose economy is slowing down, and a stagnating Europe. At the beginning of the quarter, the difference in rates between the German 10-year and the US 10-year reached its highest level since 2019, at 220 bps, before tightening sharply to 170 bps in mid July¹. Nevertheless, the US real rate remains well above the Fed's long-term neutral rate estimate and therefore offers more value than German bonds.

In the European credit market, risk premiums fell by around 30 bps for the Investment Grade⁶ and around 80 bps in High Yield⁷. However, in absolute terms, yields remain attractive, particularly for Investment Grade. Primary market issuances remain high. Debt refinancing has accelerated, and lower-quality issuers have been able to refinance themselves without difficulty. In particular, investors continue to show their appetite for High Yield debt, reflecting a search for yield in a market that is drawing closer to its historically highest price levels.

Investment Grade and High Yield



Source: Bloomberg, Rothschild & Co Asset Management – June 2024.

Investment Grade and High Yield Spread



Bloomberg, Rothschild & Co Asset Management – June 2024.

How we are positioned on the credit markets

We favour a 'tactical' approach, with a selection of high-quality bonds, avoiding the long end of the yield curves. Our aim is to guard against the risk of a downward trend which could materialise with a reappraisal of inflation expectations and/or term premiums. The compression of risk premiums leads us to improve the credit quality of our portfolios. In this context, we are maintaining the same selective positioning as in recent months, reducing exposure to beta⁸ through improving ratings, favouring non-cyclical issuers over cyclical issuers, as well as senior debt over subordinated debt and purchasing CDS to hedge portfolios.

Our 9th and 10th generation of maturity funds are still open for subscription

R-co Target 2027 HY is a credit fund based on a bond carry to maturity strategy, invested in High Yield (7) quality bonds denominated in euro. This buy and hold strategy is based on a selection of securities with an average maturity between January and December 2027. Based on the same management principles, R-co Target 2029 IG invests in Investment Grade (6) bonds denominated in euro from all geographical regions. The selected securities mature between January and December 2029. These two funds will be marketed until 31 December 2024.

R-co Conviction Credit Euro

We have classified this product in risk class 2 out of 7, which is a low risk class and mainly reflects its positioning on the products of private debt while having a sensitivity between 0 and +8. In other words, the potential losses related to the future results of the product are at a low level and, if the situation deteriorates in the markets, it is very unlikely that our ability to pay you will be affected. The risk indicator starts from the assumption that you keep the product for 3 years; if not, the actual risk may be very different, and you could get less in return.

R co Target 2027 HY

The synthetic risk indicator makes it possible to assess the level of risk of this product compared to others. It indicates the likelihood of this product recording losses in case of market movements or an inability on our part to pay you. The risk indicator starts from the assumption that you keep the product until 31 December 2027. The actual risk can be very different if you opt for an exit before maturity, and you could get less in return. We have classified this product in risk class 3 out of 7, which is a risk class between low and medium, and mainly reflects its positioning on credit risk and fixed income products with maximum residual maturity is 31 December 2029. In other words, the potential losses related to the future results of the product are between low and medium and, if the situation deteriorates in the markets, it is unlikely that our ability to pay you will be affected.

R co Target 2029 IG

The synthetic risk indicator makes it possible to assess the level of risk of this product compared to others. It indicates the likelihood of this product recording losses in case of market movements or an inability on our part to pay you. The risk indicator starts from the assumption that you keep the product until 31 December 2029. The actual risk can be very different if you opt for an exit before maturity, and you could get less in return. We have classified this product in risk class 2 out of 7, which is a low risk class and mainly reflects its positioning on credit risk and fixed income products with a maximum residual maturity of 31 December 2030. In other words, the potential losses related to the future results of the product are at a low level and, if the situation deteriorates in the markets, it is very unlikely that our ability to pay you will be affected.

R co Valour Bond Opportunities

We have classified this product in risk class 2 out of 7, which is a low risk class and mainly reflects a discretionary management policy exposing the portfolio in a diversified way over the medium term to the fixed income markets. In other words, the potential losses related to the future results of the product are at a low level and, if the situation deteriorates in the markets, it is very unlikely that our ability to pay you will be affected. The risk indicator starts from the assumption that you keep the product for 3 years; if not, the actual risk may be very different, and you could get less in return.

Main risks: Discretionary management risk, interest rate risk, credit risk, credit risk ('speculative' or 'high yield'), counterparty risk, performance risk, risk of loss of capital, risk linked to the use of derivative instruments, specific risk linked to the use of complex subordinated bonds (contingent convertible bonds called 'CoCos'), currency risk, equity risk, risk linked to exposure to non OECD countries (including emerging countries). Before any investment, it is imperative to carefully read the DIC PRIIPS and prospectus of the UCI, and more particularly its section relating to risks and charges, available on the Rothschild & Co Asset Management website: Am.eu.rothschildandco.com

Learn more about the fund(s)

R-co Valor Bond Opportunities



R-co Target 2028 IG



R-co Target 2027 HY



R-co Conviction Credit Euro



Check this document on our website



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- (1) Source: Bloomberg, July 2024.
 - (2) Source : U.S. Bureau of Labor Statistics, July 2024.
 - (3) Consumer Price Index
 - (4) The PCE price index is an indicator of the average increase in prices for all domestic personal consumption in the United States.
 - (5) Source: Rothschild & Co Asset Management, July 2024.
 - (6) Debt securities issued by companies or governments rated between AAA and BBB- by Standard & Poor's.
 - (7) High-yield bonds are issued by companies or governments with a high credit risk. Their financial rating is below BBB- on the Standard & Poor's scale.
 - (8) Measure of the risk of volatility of a share compared with the market as a whole. The market beta coefficient is 1.00. Any stock with a beta greater than 1 is considered to be more volatile than the market, and therefore more risky.

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Dedicated asset management division of the Rothschild & Co Group, we offer personalised management services to a broad client base of institutional investors, financial intermediaries and distributors. We focus our development on a range of open ended funds marketed under four strong brands: Conviction, Valour, Thematic and 4Change, and benefiting from our long term expertise in active and conviction based management as well as delegated management. Based in Paris and based in 9 countries in Europe, we manage more than 31 billion euros and bring together nearly 160 employees. More information at www.am.eu.rothschildandco.com

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

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