R-co Valor Bond Opportunities or the ability to flourish in uncertainty

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In the current macroeconomic environment, controlling inflationary pressures is akin to walking a tightrope and increases the likelihood that the soft landing will prove more turbulent than expected. However, the volatility that these tensions generate in bond markets proves to be a source of opportunity. Illustration with R-co Valor Bond Opportunities.

Since the beginning of the year, fluctuations in interest rate expectations have cause significant volatility in bond markets. To temper investor optimism, central bankers have increased rhetoric calling for caution and moderation. Consequently, while at the start of the year the consensus expected seven rate cuts for 2024 both in the United States and the eurozone, these estimates have been revised down to three, possibly four, in recent weeks[1] .

In the United States, the first rate cut is expected to occur in July. Although inflation is decreasing, it remains far from the 2% target with *core*[2] inflation hovering around 3 %[3]. Resilience in real estate prices and wage growth (between 4% and 5 %[4]) continue to support inflation.

The ECB, like the Fed, signals several rate cuts in 2024. Yet, the European situation

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remains more complex than across the Atlantic. While U.S. ended the year on a positive note, in Europe, it was stagnating around zero. *Core* inflation remains above the central bank's target, slightly exceeding 3 %[3]. This situation could influence future ECB decisions. Nonetheless, we believe that the peak in rates is behind us, even though the central bank pivot may take time.

The correlation of Investment Grade[(5)] with rates makes the asset class particularly attractive. Historically, this segment has delivered returns between 7% and 15 %[(6)] in the quarters following the end of the rate hiking cycle. In the High Yield[(7)] segment, tightening risk premiums combined with a potential slowdown in growth compel a defensive position, although numerous idiosyncratic opportunities exist.

In this volatile environment, R-co Valor Bond Opportunities fully leverages the flexibility of its management in the bond markets. Without a benchmark, the fund enjoys significant freedom in its management by adopting the 'blank slate' approach characteristic of the Valor range, allowing it to adjust its sensitivity and geographical and sectoral allocations to optimize the risk/return profile offered by the market. The portfolio is invested in international bonds (20% maximum outside the OECD) and can be exposed up to 50% in High Yield or unrated securities. The fund also implements relative value strategies on rates and credit, uncorrelated with the rest of the portfolio, allowing for diversification of performance drivers.

The portfolio achieves a gross actuarial yield[(8)] of 5.80 %[(9)] and is composed of sovereign and credit bonds. Sovereign rates, mostly American, with an average maturity of 5 years, contribute 1.5 to overall sensitivity. The credit portion, on the other hand, offers strong diversification with 144 issuers for an average rating of BB + and a sensitivity of 2.27[(9)].

R-co Valor Bond Opportunities thus offers a balanced approach between opportunism and caution, providing investors with a bond investment solution suited to an environment marked by uncertainty surrounding monetary policies and divergences between geographical areas.

[1] Source : consensus, 29/02/2024
[2] Excluding food and energy
[3] Bloomberg, 29/02/2024
[4] Source: Fed, ECB, February 2024
[5] Debt securities issued by companies or governments rated between AAA and BBB- according to Standard & Poor's scale.
[6] Source: Bloomberg, 29/02/2024
[7] High Yield bonds are issued by companies or governments with high credit risk. Their financial rating is lower than BBB according to Standard & Poor's
[8] The actuarial yield corresponds to the return obtained by holding a financial asset until maturity (remaining life) and reinvesting the interest at the same actuarial rate.
[9] Source : Rothschild & Co Asset Management, 29/02/2024

Learn more about the fund(s)

R-co Valor Bond Opportunities

Check this document on our website

Risque SRI 2/7 :

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 medium term to 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 were to deteriorate in the markets, our ability to pay is unlikely to be affected. The share risk indicator Assuming you keep the product for 3 years; otherwise, the actual risk may be very different, and you could get less in return. Before any investment, it is imperative to read carefully the PRIIPS DIC and prospectus of the UCI, and more particularly Its section relating to risks and fees, available on the Rothschild & Co Asset Management website: Am.eu.rothschildandco.com Advertising document. 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