Rothschild & Co
Asset Management



Corporate or Sovereign: Is the choice still obvious?



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Against a backdrop of persistent inflationary pressures, rising political risk in France and the resilience of the European economy, pressure on interest rates has led us to tactically adjust the modified duration of R-co Conviction Credit Euro.

After starting the year with modified duration in line with that of our benchmark, we made a two-stage adjustment. In March, we believed that expectations of rate increases following the emergence of the conflict in the Middle East were overstated. We therefore initiated positions at the short end of the curve, considering that a short-lived conflict would have only a limited impact on inflation and therefore on the ECB's monetary policy. In view of the carry and roll-down offered by this segment, we considered the risk to be measured.

Over the summer, the protracted conflict, rising energy prices and inflationary pressures led us to reassess our scenario and revise our positioning. As sovereign yields rose significantly worldwide and across the yield curve, we entered September with a neutral duration position. Nevertheless, we remain convinced that inflation is being driven by volatile factors and that second-round effects, such as the emergence of a wage-price spiral, are not currently foreseeable, unlike the situation that prevailed in 2022.

During the previous energy crisis following the outbreak of the conflict between Russia and Ukraine, policy rates were historically low and accumulated savings, particularly in the wake of the Covid-19 pandemic, were higher than they are today. This leads us to believe that market expectations regarding ECB policy are entirely consistent. Against this

backdrop, we recently decided to increase the portfolio's modified duration to a slight overweight relative to the benchmark by initiating positions at the short end of the curve.

In addition, the rise in sovereign yields is proving supportive for the credit market through higher yields. The asset class continues to demonstrate its resilience and offer opportunities, even though volatility is virtually non-existent. Spreads[(1)] have fluctuated only between 90 and 93 bps since 10 April, while fundamentals and technical factors remain strong[(2)]. Consequently, flows remain robust. Investors also appear increasingly hesitant between corporate bonds issued by well-managed companies and government bonds issued by countries whose economic policies may at times be less clear.
We seek beta exposure through the BBB segment, which offers a premium that we still consider attractive, as well as through subordinated financial debt, which provides attractive carry. However, within this second segment, French financial bonds are beginning to crystallise market concerns.
We believe that this risk is more closely related to volatility than to solvency. Indeed, the sector's exposure to French government debt remains limited. For example, it represents only between 1% and 3% of the total assets held by the major domestic banks[(3)]. French insurers, meanwhile, hold on average less than one quarter of their assets in government bonds, just over half of which are invested in France[(3)].

Sovereign bonds issued by euro area countries, denominated and funded in euros, also benefit from preferential prudential treatment for these institutions. Consequently, French sovereign risk would materialise through the loss in value of sovereign bonds and the resulting reduction in insurers' own funds. These unrealised losses are directly reflected in the Solvency II prudential balance sheet[(4)].

On average, we estimate that a sovereign spread movement of around +50 basis points would reduce the Solvency II ratio of major French insurers by approximately 10 percentage points. The average solvency ratio of these institutions currently exceeds 210% and is therefore sufficiently strong to absorb this volatility[(5)].

The Italian situation in 2018 may also serve as a precedent for analysing the French case. The formation of a coalition government between the Five Star Movement (M5S) and the League caused the spread between the Italian 10-year BTP and the German Bund to widen sharply. In such a situation, the impact on the prudential balance sheets of French insurers would remain manageable given their current solvency levels.

This risk must nevertheless be taken into consideration. However, given their current yield levels, bonds issued by French insurers still appear to offer sufficient compensation to absorb a degree of volatility. Furthermore, the sector's fundamentals remain reassuring. In this environment, the further spreads on French subordinated financial bonds widen, the more likely we are to view the situation as a source of opportunities.

Más información sobre los fondos

R-co Conviction Credit Euro

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(1) Yield differential between a bond and a bond of equivalent maturity considered to be ‘risk-free’.
(2) Source: Bloomberg, 31/08/2026.
(3) Sources: ACPR (Situation of insurers in France at end-2025), company publications, September 2026.
(4) Economic balance sheet of an insurer’s financial position, based on the market value of its assets and liabilities, used to assess its solvency.
(5) Source: Company publications, September 2026.

SRI Risk: 2/7

We have classified this product in risk class 2 out of 7, which is a low-risk category and primarily reflects its exposure to private debt instruments, while maintaining a modified duration ranging from 0 to +8. In other words, potential losses arising from the product's future performance are considered low and, should market conditions deteriorate, it is highly unlikely that our ability to pay you would be affected. The risk indicator assumes that you hold the product for three years. If you do not, the actual risk may differ significantly and you could receive less in return. The risk scale ranges from 1 (lowest risk) to 7 (highest risk); the lowest category does not mean a "risk-free" investment. The risk category associated with this fund is not guaranteed and may change over time.

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Más información en: www.am.eu.rothschildandco.com

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