



Fixed Income Quarterly Strategy - July 2026



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After a strong start to the year for the fixed income markets, the environment has gradually become more complex. Yet the credit market initially benefited from a favorable environment: resilient global growth, gradual disinflation, and central banks perceived as likely to ease monetary policy. This combination bolstered investor confidence, sustained the appetite for carry trades, and suggested that risk premiums would remain relatively stable.

Since then, the landscape has changed. The conflict in the Middle East has reignited inflation fears as energy prices have risen. This development has led to a shift in monetary policy expectations and a significant adjustment in interest rates.

However, the credit market has not entered a state of widespread stress. The gradual normalization of energy prices, continued investment in artificial intelligence, and support from public spending continue to underpin economic activity. Against this backdrop, the readjustment observed in the fixed income markets since the beginning of the year has created attractive opportunities in both fixed income and credit.



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Rates on short-term maturities have become attractive again

The quarter was marked by the European Central Bank's (ECB) first interest rate hike since 2023. Its key interest rate was raised by 25 basis points to 2.25%¹, amid a temporary spike in inflation linked to tensions in the Middle East. Inflation in the eurozone rose from 3.0% in April to 3.2% in May before slowing to 2.8% in June, while core inflation continued to decline, falling from 2.6% to 2.4%¹. This trend confirms a slower return to the target than



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expected at the beginning of the year.

We view this rate hike more as a signal of credibility sent by the ECB than as the start of a sustained cycle of monetary tightening. The ECB certainly wanted to reiterate its vigilance regarding inflationary risks, but the economic environment differs significantly from that of 2022. At that time, the energy shock occurred in an overheating economy. Today, growth remains more moderate, and the labor market appears less tight. The rapid decline in oil prices is also a key factor. Uncertainty centered mainly on the duration of the shock and the pace at which energy prices would normalize. However, oil prices have returned to their pre-conflict levels, reducing the risk of a sustained spillover into inflation expectations. The market, however, has not yet fully factored this normalization into its monetary policy expectations.

Today, the fixed income market is operating in an environment that is structurally different from that of previous years. Financing needs are rising simultaneously across several sectors: artificial intelligence, energy infrastructure, defense, industrial reshoring, and public spending. This increased demand for capital is helping to keep real yields at high levels.

In this context, we believe short-term rates offer better visibility than long-term rates. Long-term rates offer little value and remain exposed to fiscal uncertainties, while yield curves are generally quite flat. In the United States, the shift is even more pronounced than in Europe. In just a few months, the market has moved from a scenario pricing in several rate cuts to one where rate hikes are now already priced in. Kevin Warsh's appointment as head of the Federal Reserve in May marked a shift in tone: he ended forward guidance, reducing the statement from more than 300 words to about 130, while reiterating an unambiguous commitment to bringing inflation back to its 2% target². In this context, a rise in policy rates seems to us to be justified given the level of growth, the scale of investment spending by hyperscalers, and the very strong performance of the equity markets.

Financials Drive Performance in a More Selective Credit Market

Yields remain high by historical standards. At the end of May, European Investment Grade³ bonds offered a yield of nearly 3.5%¹, while High Yield⁴ bonds exceeded 6%¹—levels that continue to attract investors seeking steady income. Risk premiums, however, remain near their lowest levels in recent years, underscoring the importance of issuer selection and active portfolio management.

Against this backdrop, performance was driven primarily by the financial sector, which continues to show strong momentum thanks to solid fundamentals. Despite this resilience, we are maintaining a cautious approach by gradually reducing portfolio risk. We now favor specific opportunities unique to certain issuers rather than those based on general market trends, as current valuation levels offer only a limited margin of safety in the event of renewed volatility.

Our positioning: striving for affordability without sacrificing quality

Our positioning is based on four key convictions.

First, we have decided to overweight sensitivity across the front end of the yield curve. The readjustment of short-term rates has created value and offers an attractive entry point in an environment where visibility remains limited for long-term maturities.

Second, we are maintaining our exposure to European credit. Fundamentals remain solid, yields remain attractive, and the resilience observed since the start of the year supports our analysis. In this context, we have increased our exposure to BBB-rated issuers in the middle of the curve (3 to 7 years), while reducing our position in A-rated bonds with longer maturities (7 to 10 years)⁵.

Third, we favor insurance subordinated notes over bank subordinated notes. In our view, RT1s⁶ offer a better balance between yield and credit quality, while benefiting from the strength of the financial sector.

Finally, we are becoming more selective in the high-yield segment. The segment continues to offer attractive carry, but the increase in rating downgrades and rising idiosyncratic risk warrant a cautious approach. We favor higher-quality issuers capable of withstanding a persistently more challenging funding environment.

Hyperscalers: A Key Theme for the Coming Months

One of the major themes for the coming months will continue to be the hyperscalers. Major tech companies are pursuing unprecedented investment programs to develop the data centers, digital infrastructure, and computing capabilities needed for artificial intelligence. Capital expenditures by the five leading U.S. hyperscalers are now projected to reach nearly \$700 billion by 2026—an increase of more than \$170 billion compared to estimates from the beginning of the year⁷.

This momentum continues to support the technology sector's financing needs and fixed incomemarket activity. Issuance volumes by U.S. technology companies have thus risen from \$56 billion in 2023 to \$120 billion in 2025 and have already reached \$150 billion in the first five months of 2026¹.

However, investors no longer automatically reward increased capital expenditures. The market is becoming more selective and now seeks to identify companies capable of demonstrating a tangible economic return on these investments. In this context, balance sheet quality, cash flow generation, and the ability to translate these investments into sustainable growth are likely to become increasingly important differentiators among players in the sector.

Ulteriori informazioni sui fondi

R-co Valor Bond Opportunities



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- (1) Source: Bloomberg, July 2026.
 (2) Press conference by President Warsh, June 17, 2026.
 (3) Debt securities issued by corporations or governments with ratings ranging from AAA to BBB- on the Standard & Poor's scale.
 (4) High-yield bonds are issued by companies or governments with high credit risk. They are rated below BBB- by Standard & Poor's.
 (5) Source: Rothschild & Co Asset Management, June 30, 2026.
 (6) RT1 (Restricted Tier 1) insurance subordinated notes are perpetual hybrid securities issued by insurers, counted as Tier 1 regulatory capital, with discretionary returns and loss-absorption mechanisms designed to strengthen the issuer's solvency.
 (7) CreditSights, Tech: Raising Hyperscaler Capex 2026 Estimates, February 2026.

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

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