Rothschild & Co
Asset Management

Fixed Income Quarterly Strategy — October 2024

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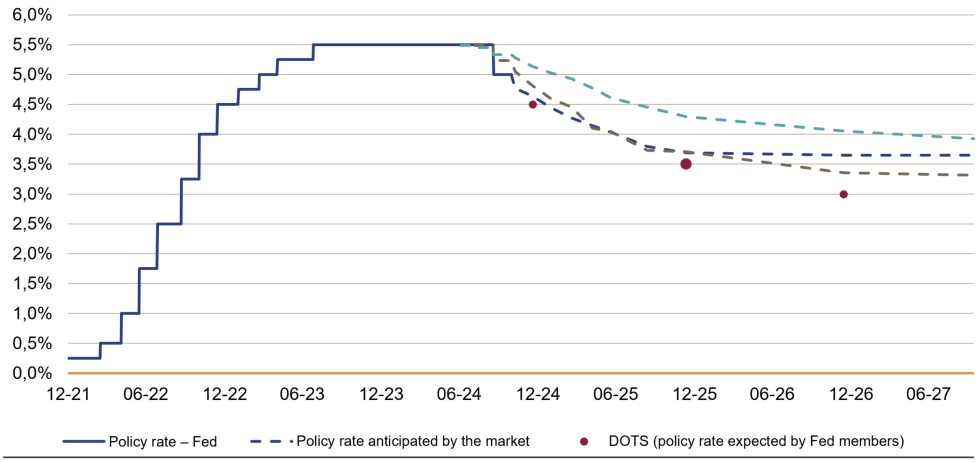
As the global economy appears to be landing softly, with disinflation well underway, fiscal plans from a new U.S. administration could jeopardize this process. Meanwhile, in Europe, the Central Bank lowered rates for the third time this year on October 17, indicating that inflation in the Eurozone is now increasingly under control, even as growth prospects lean downward.

U.S. and European economies out of sync

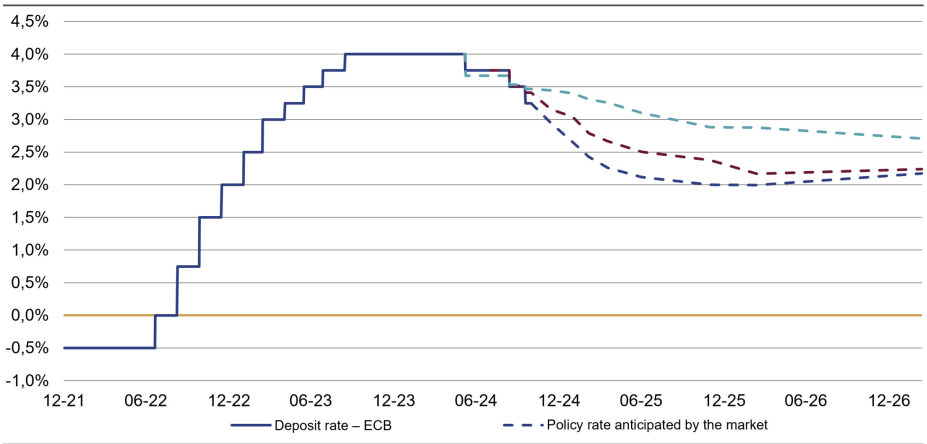
For several months, we have observed a notable decoupling between the U.S. and Europe, with a more resilient U.S. economy, supported by both consumer spending and the labor market. This is reflected in the widening U.S./Germany spread (+40 bp in October)[1]. Additionally, markets now anticipate fewer rate cuts in the U.S. (two less than a month ago), while expectations in Europe remain stable with six cuts anticipated within the next year. In Europe, however, the macroeconomic outlook contrasts sharply, with an increasingly likely recession scenario. Moreover, while rates appear to have decreased, the decline has been more pronounced on the short end of the curve, due to central banks' rate cuts. Consequently, we have observed a steepening of the 2/10-year slope, reflecting the economic cycle and the additional stimulus central banks are injecting into the economy. This phenomenon has prompted us to slightly extend the average maturity of bonds entering the portfolio.

Fed rates forecasts – United States



Source : Rothschild & Co Asset Management, 30/10 2024.

ECB deposit rate forecasts – Euro zone

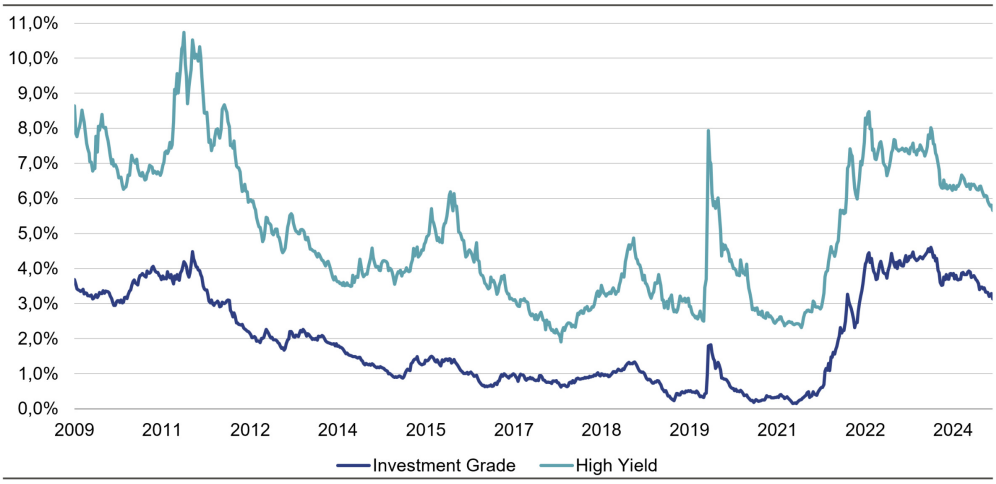


Source : Rothschild & Co Asset Management, 30/10 2024.

Bond markets continuing their transition

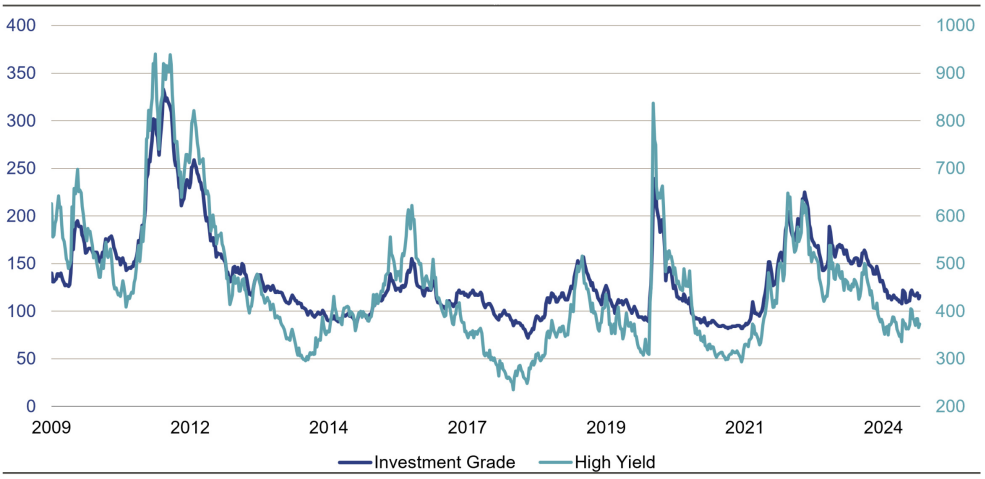
The credit market has performed very well this year, with gains of 4%[1] for Investment Grade[2] and 7%[1] for High Yield[3], along with a nearly continuous tightening of risk premiums. Currently, the credit market anticipates an ideal scenario of economic slowdown. However, if market expectations of mild growth decline without shocks fail to materialize, it could create volatility. In this scenario, we allow ourselves the necessary flexibility to capitalize on such movements. Today, we remain cautious and continue to improve the overall credit quality of the portfolios.

Investment Grade and High Yield



Source : Rothschild & Co Asset Management, 30/09 2024.

Investment Grade and High Yield spreads (in bp)



Source : Rothschild & Co Asset Management, 30/09 2024.

Our positioning in the credit market

Economic and market forecasts show a fragile balance, with ongoing risks related to monetary policies and inflationary pressures. In this context, we favor a "*tactical*" approach in the credit market, particularly in the Investment Grade segment, which offers better protection and attractive yields. We position ourselves on the long end of the curve to benefit from the yield curve steepening. We especially favor financial and non-cyclical corporate bonds, which demonstrate greater stability amid current economic fluctuations. Additionally, we maintain a slight underweight in duration to remain flexible and limit exposure to rate volatility risks, given the current market valuation.

Only a Few Weeks Left to Subscribe to Our 9th and 10th Generation of Maturity Funds!

R-co Target 2027 HY is a credit fund based on a strategy of holding bonds to maturity,

invested in high-quality High Yield bonds denominated in euros. This "buy and hold"[4] strategy relies on a selection of securities maturing between January and December 2027. Following similar management principles, R-co Target 2029 IG invests in Investment Grade bonds from all geographical areas, denominated in euros, with selected securities maturing between January and December 2029. The subscription period for these two funds will run until December 31, 2024.

Before making any investment, it is essential to carefully read the PRIIPS KID and prospectus of the OPC, particularly the section on risks and fees, available on Rothschild & Co Asset Management's website: am.eu.rothschildandco.com.

R-co Conviction Credit Euro

SRI: 2/7

The risk indicator assumes you hold the product for three years. The actual risk may differ if you opt to exit early, and you could get back less. The synthetic risk indicator provides an assessment of the product's risk level compared to others. It shows the likelihood of this product incurring losses due to market movements or our inability to pay you. This product has been classified as risk class 2 out of 7, which is a low-risk class, mainly reflecting its position in private debt products with sensitivity between 0 and +8. This means the potential losses from future outcomes of the product are at a low level, and if the market situation worsens, our ability to pay you is unlikely to be affected. Since this product does not offer protection against market uncertainties or capital guarantees, you could lose some or all of your investment.

R-co Target 2027 HY

SRI: 3/7

The risk indicator assumes you hold the product until December 31, 2027. The actual risk may differ if you exit early, and you could get back less. The synthetic risk indicator provides an assessment of the product's risk level compared to others. It shows the likelihood of this product incurring losses due to market movements or our inability to pay you. This product has been classified as risk class 3 out of 7, a low to medium-risk class, mainly reflecting its credit risk and fixed income exposure with a maximum residual maturity on December 31, 2029. This means the potential losses from future outcomes of the product are at a low to medium level, and if the market situation worsens, our ability to pay you is unlikely to be affected. Since this product does not offer protection against market uncertainties or capital guarantees, you could lose some or all of your investment.

R-co Target 2029 IG

SRI: 2/7

The risk indicator assumes you hold the product until December 31, 2029. The actual risk may differ if you exit early, and you could get back less. The synthetic risk indicator provides an assessment of the product's risk level compared to others. It shows the likelihood of this product incurring losses due to market movements or our inability to pay you. This product has been classified as risk class 2 out of 7, a low-risk class, mainly reflecting its credit risk and fixed income exposure with a maximum residual maturity on December 31, 2030. This means the potential losses from future outcomes of the product are at a low level, and if the market situation worsens, our ability to pay you is unlikely to be affected. Since this product does not offer protection against market uncertainties or

capital guarantees, you could lose some or all of your investment.

R-co Valor Bond Opportunities
SRI: 2/7
The synthetic risk indicator provides an assessment of the product's risk level compared to others. It shows the likelihood of this product incurring losses due to market movements or our inability to pay you. The risk indicator assumes you hold the product for three years. The actual risk may differ if you exit early, and you could get back less. This product has been classified as risk class 2 out of 7, a low-risk class, mainly reflecting its discretionary management policy, exposing the portfolio medium-term to diversified fixed-income markets. This means the potential losses from future outcomes of the product are at a low level, and if the market situation worsens, our ability to pay you is unlikely to be affected. Since this product does not offer protection against market uncertainties or capital guarantees, you could lose some or all of your investment.

Key Risks: Discretionary management risk, interest rate risk, credit risk, credit risk (speculative or High Yield), counterparty risk, performance risk, capital loss risk, risks associated with derivative instruments, specific risks related to the use of complex subordinated bonds (contingent convertible bonds, or "CoCos"), currency risk, equity risk, risk related to exposure to non-OECD countries (including emerging markets). Before making any investment, it is essential to carefully read the PRIIPS KID and prospectus of the OPC, particularly the section on risks and fees, available on Rothschild & Co Asset Management's website: am.eu.rothschildandco.com.

Ulteriori informazioni sui fondi

R-co Valor Bond Opportunities

R-co Target 2028 IG

R-co Target 2027 HY

R-co Conviction Credit Euro

Consulta questo documento sul nostro sito web

(1) Source: Bloomberg, October 2024.
(2) Debt securities issued by companies or governments rated between AAA and BBB- by Standard & Poor's.
(3) 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.
(4) The Buy and Hold strategy involves the investor buying and holding a share for a relatively long period, as opposed to a short-term trading approach. Such an approach, by definition, implies low portfolio turnover.

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About Rothschild & Co's Asset Management division

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

Informazioni sulla divisione Asset Management di Rothschild & Co

Come divisione specializzata nella gestione patrimoniale del gruppo Rothschild & Co, offriamo servizi di gestione personalizzati a un'ampia clientela di investitori istituzionali, intermediari finanziari e distributori. Il nostro sviluppo si basa su una gamma di fondi aperti che beneficiano della nostra esperienza di lungo periodo nella gestione attiva e di convinzione, nonché nella gestione delegata. Con sede a Parigi e uffici in 10 paesi europei, gestiamo oltre 50 miliardi di euro e impieghiamo quasi 200 persone(1).
Ulteriori informazioni su : www.am.eu.rothschildandco.com

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

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