Rothschild & Co
Asset Management

The rise of the short end



Kristell Agaësse
Head of High Yield & Convertible Bonds



Michael Longeard
High Yield Portfolio Manager



Philippe Lomné
Fixed Income Portfolio Manager
Specialisation: IG Credit IG & Crossover

In the current environment, bonds with shorter maturities have once again become particularly attractive. They offer high levels of carry while historically exhibiting lower volatility than the broader market. Positioned within the Investment Grade and High Yield universes respectively, R-co Conviction Credit SD Euro and R-co Conviction High Yield SD Euro implement this approach through two distinct investment strategies.

A favourable backdrop for shorter maturities

The outbreak of conflict in the Middle East has fundamentally changed the picture compared with the beginning of the year. Rising inflation expectations, driven by higher commodity prices, have resulted in a significant repricing of monetary policy expectations on both sides of the Atlantic, with investors still anticipating two further rate hikes from both the Fed and the ECB. As a result, interest rates have risen broadly, while yield curves have flattened. In Germany, for example, the two-year yield has risen by 90 basis points since the start of the year, compared with 40 basis points for the 10-year yield and only 15 basis points for the 30-year yield. [1]

In credit markets, spreads[2] have remained relatively resilient despite widening in October. Most of the available premium remains concentrated at maturities below five years and, in our view, extending further along the maturity curve is no longer sufficiently rewarded. In some areas of the High Yield[3] market, the curve is even inverted. With uncertainty surrounding the path of interest rates remaining high, this backdrop further strengthens

the relative appeal of shorter maturities. It is precisely within these segments that R-co Conviction Credit SD Euro and R-co Conviction High Yield SD Euro are positioned.

A greater cushion at shorter maturities

For both Investment Grade[4] and High Yield, when considering return per unit of volatility, as measured by the Sharpe ratio[5], these are the only two asset classes to record a ratio above 1, placing them among the segments with the most favourable risk-adjusted returns in the European credit universe[6].

Their lower interest-rate sensitivity also limits the impact of rate movements on valuations. This is complemented by two potential sources of return: carry and roll-down[7]. Assuming an unchanged yield curve, as a bond gradually approaches maturity, its price may appreciate. In an environment where yield has once again become a key driver of fixed-income markets, these mechanisms provide an additional cushion that can help mitigate movements in both interest rates and credit spreads.

One-year breakeven[8] provide a tangible measure of this capacity to absorb market movements, by indicating how far yields can rise before returns turn negative over a one-year horizon. Including the roll-down effect, they stood at 289 basis points for the 1-3 year Investment Grade segment as at 23 October, compared with 115 basis points for the Investment Grade universe as a whole[9]. In euro High Yield, breakevens stood at 358 basis points for the 1-3 year segment, compared with 193 basis points for the all-maturity index[9].

Historical data also point to a relatively swift recovery following periods of market correction. Excluding the Covid-19 crisis and the inflation shock triggered by the war in Ukraine, eight of the ten drawdowns[10] analysed were recovered in less than 70 days[11]. These more extreme episodes nevertheless serve as a reminder that shorter maturities do not mean an absence of risk.

Investment Grade: turning the rate shock into an opportunity

The rise in interest rates has created a particularly favourable backdrop for Investment Grade bonds with shorter maturities, offering an attractive entry point. However, the strategy implemented through R-co Conviction Credit SD Euro goes beyond maintaining structurally low duration. It is based on actively managing the portfolio's interest-rate sensitivity throughout the cycle. In a falling-rate environment, for instance, maintaining greater sensitivity than the index allows the portfolio to benefit more fully from bond price appreciation, while also capturing the roll-down effect.

Portfolio construction also draws on careful selection of issuers and debt structures. This is particularly important within financials, which represent a significant part of the Investment Grade universe. Banks' solvency, capital structures and the level of subordination of individual securities are analysed to strike an appropriate balance

between carry and credit risk.

High Yield: capturing carry in an environment of contained volatility

R-co Conviction High Yield SD Euro takes a different approach, reflecting the greater degree of selectivity required by this asset class. Within High Yield, performance is more dependent on carry, movements in credit spreads and companies' ability to service or refinance their debt. Shorter maturities reduce the period of exposure to a potential deterioration in fundamentals and generally provide greater visibility over the repayment or refinancing of individual securities.

The High Yield segment currently offers higher levels of carry than Investment Grade, while historical performance has also delivered higher returns. Within this segment, we favour higher-rated issuers. The strategy can also make use of credit derivatives, including tranches of iTraxx CDS[12] indices, allowing part of the issuer-specific credit risk to be replaced with market risk. These instruments can help offset some of the yield foregone by avoiding exposure to the most vulnerable issuers.

Two complementary approaches

The current environment calls for a degree of caution. At prevailing yield levels, bonds are once again playing a defensive role within a broader allocation, particularly at the shorter end of the curve, allowing investors to capture attractive levels of yield without taking on excessive duration risk.

Against this backdrop, R-co Conviction Credit SD Euro and R-co Conviction High Yield SD Euro offer particularly attractive strategies from a risk-adjusted return perspective, while reflecting two distinct investment philosophies. The former takes a more opportunistic approach to the Investment Grade market, seeking to capture opportunities arising from the current environment. The latter is intended to play a more structural role within an allocation, making the timing of the investment less critical.

R-co Conviction Credit SD Euro – Main risks: risk associated with discretionary management, interest rate risk, risk associated with the use of derivative instruments, credit risk, risk related to non-financial (ESG) criteria, sustainability risk, counterparty risk, risk that the Sub-Fund's performance may not meet its objectives and that the Sub-Fund may not at all times be invested in the best-performing markets, capital loss risk, risks related to collateral management, legal risk.

R-co Conviction High Yield SD Euro – Main risks: risk associated with discretionary management, capital loss risk, credit risk, High Yield risk, interest rate risk, risk related to non-financial (ESG) criteria, sustainability risk, counterparty risk, specific risk associated with the use of complex subordinated bonds (contingent convertible bonds, known as "CoCos").

As these products provide no protection against market fluctuations or capital guarantee, you could lose some or all of your investment.

Before investing, it is essential to read the PRIIPs KID and the fund prospectus carefully, in particular the sections relating to risks and fees, available on the Rothschild & Co Asset Management website: am.eu.rothschildandco.com.

Meer informatie over de fondsen

R-co Conviction High Yield SD Euro

Bekijk dit document op onze website

(1) Source: Bloomberg, 30/10/2026.
(2) The yield spread between a bond and a debt security of equivalent maturity considered to be “risk-free”.
(3) High Yield bonds are issued by companies or governments presenting a high level of credit risk. Their credit rating is below BBB- on the Standard & Poor’s rating scale.
(4) Debt securities issued by companies or governments with ratings ranging from AAA to BBB- on the Standard & Poor’s rating scale.
(5) A measure of the difference between the performance of a portfolio of financial assets and the risk-free rate, divided by the standard deviation of its return, as measured by volatility.
(6) Source: Rothschild & Co Asset Management, December 2025.
(7) The potential appreciation in the price of a bond as it approaches maturity and “rolls down” the yield curve, where the curve is upward sloping and remains relatively stable.
(8) The increase in yields that a bond’s return can absorb before performance turns negative.
(9) Sources: ICE, Rothschild & Co Asset Management, 23/10/2026.
(10) A decline in the value of an investment from a peak to the trough reached before it recovers.
(11) Sources: Bloomberg, Rothschild & Co Asset Management, 23/10/2026.
(12) A Credit Default Swap (CDS) is a derivative instrument that provides protection against the risk of default on debt issued by a government or company.

R-co Conviction Credit SD Euro - SRI risk profile: 2/7 The risk indicator assumes that you hold the product for 3 years. The actual risk may vary significantly if you cash in at an early stage and you may get back less. The summary risk indicator provides a guide to the level of risk of this product compared with other products. It shows how likely it is that the product will lose money because of movements in the markets or because we are unable to pay you. We have classified this product as 2 out of 7, which is a low risk class and mainly reflects its positioning in private debt instruments, while maintaining modified duration between 0 and +4. This means that potential losses from the product's future performance are considered low and, if market conditions were to deteriorate, it is very unlikely that our ability to pay you would be affected.

R-co Conviction High Yield SD Euro - SRI risk profile: 2/7 The risk indicator assumes that you hold the product for 3 years. The actual risk may vary significantly if you cash in at an early stage and you may get back less. The summary risk indicator provides a guide to the level of risk of this product compared with other products. It shows how likely it is that the product will lose money because of movements in the markets or because we are unable to pay you. We have classified this product as 2 out of 7, which is a low risk class and mainly reflects a discretionary management policy focused on High Yield fixed-income markets, while maintaining modified duration between 0 and 3. This means that potential losses from the product's future performance are considered low and, if market conditions were to deteriorate, it is very unlikely that our ability to pay you would be affected.

Marketing communication

The information, comments and analyses contained in this document are provided for information purposes only and should not be considered investment advice, tax advice, a recommendation or investment advice from Rothschild & Co Asset Management.

The information/opinions/data contained or referred to in this document, considered legitimate and correct on the date of publication in light of the economic and financial environment prevailing at that date, are subject to change at any time.

Although this document has been prepared with the greatest care using sources deemed reliable by Rothschild & Co Asset Management, no guarantee is given as to the accuracy or completeness of the information and assessments it contains, which are provided for information purposes only and are subject to change without notice. Rothschild & Co Asset Management has not independently verified the information contained in this document and therefore cannot be held responsible for any errors or omissions, or for the interpretation of the information contained herein. All data have been compiled on the basis of accounting or market information. Furthermore, given the subjective nature of certain analyses, it should be noted that any information, projections, estimates, expectations, assumptions and/or opinions expressed are not necessarily implemented by the investment management teams of Rothschild & Co Asset Management or its affiliates, which act in accordance with their own convictions. Certain forward-looking statements are prepared on the basis of assumptions that may differ, in whole or in part, from actual outcomes. Any hypothetical estimate is, by its nature, speculative and it is possible that some, if not all, of the assumptions underlying these hypothetical illustrations may not materialise or may differ significantly from current expectations. This analysis is valid only as at the date on which this document was prepared.

R-co Conviction Credit SD Euro is a sub-fund of "R-Co", a French *Société d'Investissement à Capital Variable* (SICAV), with its registered office at 29, avenue de Messine, 75008 Paris, registered under number 844 443 390 RCS PARIS.

R-co Conviction High Yield SD Euro is a sub-fund of "R-Co 2", a French *Société d'Investissement à Capital Variable* (SICAV), with its registered office at 29, avenue de Messine, 75008 Paris, registered under number 889 511 747 RCS PARIS.

The information provided does not imply that the UCI presented is suitable for the profile and experience of each individual investor. Rothschild & Co Asset Management cannot be held responsible for any decision taken on the basis of, or inspired by, the information contained in this document. If in doubt, and before making any investment decision, we recommend that you contact your financial or tax adviser.

The Undertaking for Collective Investment (UCI) presented above is established under French law and regulated by the Autorité des marchés financiers (AMF). Investing in units or shares of any UCI involves risk. Before investing, it is essential to read the PRIIPs KID and the UCI prospectus carefully, in particular the section relating to risks. Each investor should also check the jurisdictions in which the units or shares of the UCI are registered. The full PRIIPs KID/prospectus is available on our website: www.am.eu.rothschildandco.com. The net asset value (NAV) is also available on our website.

The information presented is not intended for distribution to, and under no circumstances constitutes an invitation to, US persons or their representatives.

The units or shares of the UCI presented in this document are not and will not be registered in the United States under the U.S. Securities Act of 1933, as amended (the "Securities Act 1933"), or admitted under any law of the United States. These units or shares may not be offered, sold or transferred in the United States, including its territories and possessions, nor may they directly or indirectly benefit a "U.S. Person" within the meaning of Regulation S under the Securities Act 1933 or persons treated as such under the U.S. "HIRE" Act of 18 March 2010 and the FATCA regime. The figures quoted relate to past years. Past performance is not a reliable indicator of future performance and is not constant over time. The value of investments and the income derived from them may rise or fall and are not guaranteed. You may therefore not recover the amount originally invested.

Changes in exchange rates may affect the value of investments and the income derived from them, both upwards and downwards, where the reference currency of the UCI differs from the currency of your country of residence.

UCIs whose investment policies focus more specifically on specialised markets or sectors, such as emerging markets, are generally more volatile than more broadly diversified funds. For a volatile UCI, fluctuations may be particularly significant and the value of the investment may therefore fall sharply.

The performance figures shown do not take into account any fees or commissions charged upon subscription or redemption of units or shares in the relevant UCI. The portfolios, products or securities presented are subject to market fluctuations and no guarantee can be given as to their future performance. Tax treatment depends on each investor's individual circumstances and may be subject to change. Rothschild & Co Asset Management, portfolio management company with share capital of EUR 1,818,181.89, 29, avenue de Messine, 75008 Paris. AMF authorisation No. GP 17000014, RCS

Paris 824 540 173.

Over Rothschild & Co Asset Management

Als gespecialiseerde asset managementdivisie van de groep Rothschild & Co bieden wij gepersonaliseerde beheerdiensten aan een brede waaier van institutionele beleggers, financiële tussenpersonen en distributeurs. Onze ontwikkeling is gebaseerd op een reeks van fondsen met een open einde die profiteren we van onze lange termijn expertise in actief convictiebeheer en gedelegeerd beheer. Wij zijn gevestigd in Parijs en aanwezig in 10 Europese landen. Wij beheren meer dan 50 miljard euro en hebben bijna 200 mensen in dienst[(1)].
Meer informatie op: www.am.eu.rothschildandco.com

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

Frankrijk

29, Avenue de Messine
75008 Paris
+33 1 40 74 40 74

België – Nederland – Luxemburg

Rue de la Régence 52
1000 Bruxelles
+32 2 627 77 30

Zwitserland

Rothschild & Co Bank AG
Rue de la Corraterie 6
1204 Genève
+41 22 818 59 00

Italië

Passaggio Centrale 3
20 123 Milano
+39 02 7244 31

Duitsland – Oostenrijk

Börsenstraße 2 - 4
Frankfurt am Main 60313
+49 69 299 8840

Spanje

Paseo de la Castellana 40 bis
28046 Madrid
+39 02 7244 31