Rothschild & Co
Asset Management

Fixed Income Quarterly Strategy

OCTOBER 23

→ After more than one year of monetary tightening that has been exceptional in both its extent and its speed, the ECB has flagged that this cycle, the most hawkish since its inception, is probably coming to an end.

The end of monetary tightening?

Over the past period, measures taken to slow inflation have sent interest rates to more than 500 basis points (bps) in the US and more than 400 bps in Europe[1]. However, each day it looks increasingly likely that this monetary tightening cycle is coming to an end, as current levels of interest rates and restrictive credit conditions are causing investors to price in a soft “normalisation” of monetary policy, with rates staying at their current levels for several months before possible cuts in the middle of next year.

Hard or soft landing?

Leading indicators are sending out worrisome signals, with the PMI manufacturing staying below the critical threshold of 50 since the start of the year[2]. PMI services are on a similar trend, converging towards levels that point to economic trouble.

Launch of our ninth and 10th generations of target-date funds

R-co Target 2027 HY is a fund based on a strategy of holding bonds until maturity. It is invested in euro-denominated High Yield[1] bonds. This buy-and-hold strategy[2] is based on a selection of bonds whose average maturity is between January and December 2027. Based on the same management principles, R-co Target 2029 IG invests in euro-denominated Investment Grade[3] bonds from all geographical regions. They mature between January and December 2029. Distribution of these two funds lasts until 31 December 2024.

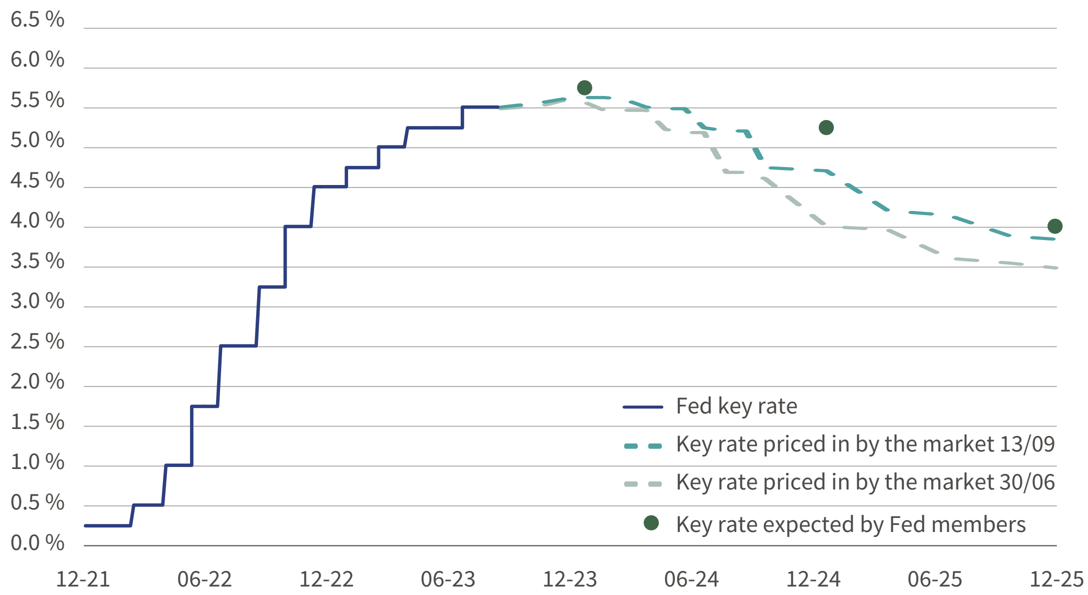
(1) High Yield bonds are issued by companies or governments having a high credit risk. They are rated below BBB- by Standard & Poor’s.
(2) Buy and hold: An investment strategy consisting of buying securities and keeping them until maturity.
(3) Investment Grade bonds are issued by companies or governments rated between AAA and BBB- on the Standard & Poor’s scale.

(1) Source: Eurostat, September 2023

(2) Purchasing managers index, an indicator reflecting their confidence in a given economic sector. Above 50, it points to an expansion in activity; below 50, to a contraction

Fed key rate forecasts – United States

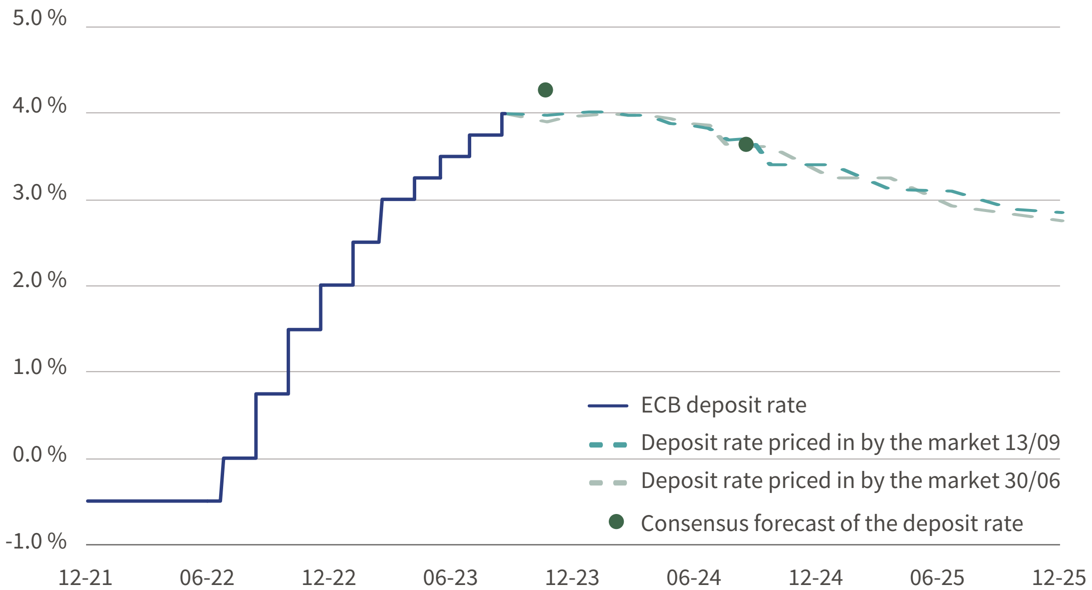
%



Sources: Bloomberg, Fed, Rothschild & Co Asset Management – 17/09/2023

ECB deposit rate forecasts – Euro zone

%



Sources: Bloomberg, ECB, Rothschild & Co Asset Management – 17/09/2023

A disinflationary cycle featuring both hope and uncertainty

The disinflation cycle now appears to have begun in the US, even though inflation is still above 4%[(3)], far above the Fed's 2% target. There have even been signs of recovery, particularly in the energy and commodities sectors, including higher oil prices. Meanwhile, real-estate prices are holding up somewhat and the job market, whose role is decisive in inflation within the services sectors, has cooled off.

In Europe, structural inflation has levelled off, but with core inflation[(4)] lagging behind, due mostly to resilience in services. Although momentum has recently slowed, inflation is expected to stay high in late 2023 and remain far above the 2% target until the end of 2024[(5)].

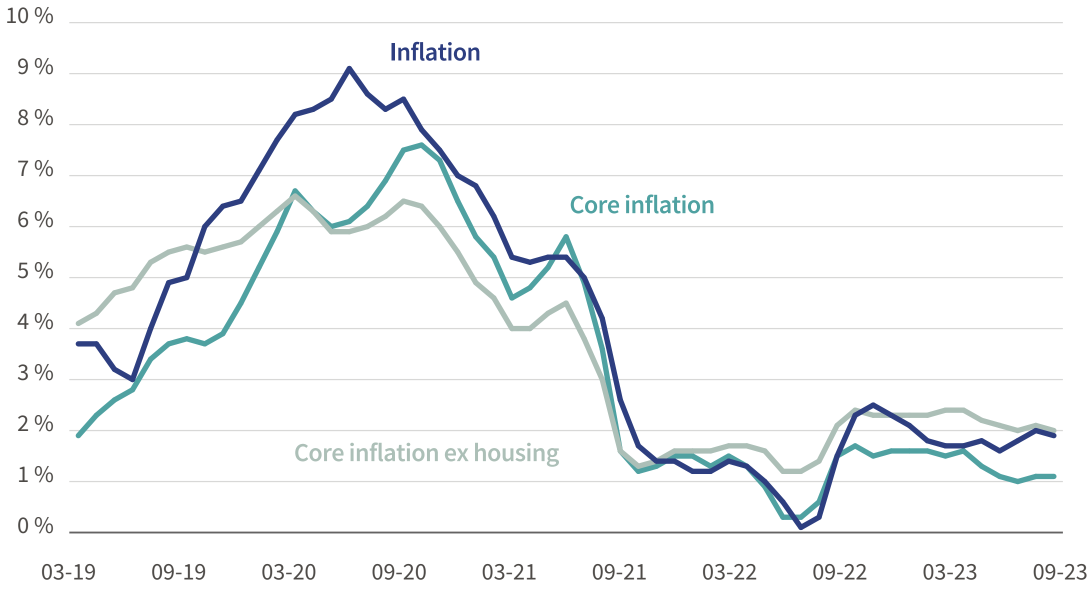
(3) Source: Bloomberg, 29/09/2023

(4) Ex energy and food

(5) Sources: Bloomberg, Rothschild & Co Asset Management, 29/09/2023

CPI[(1)] inflation indices – United States

%

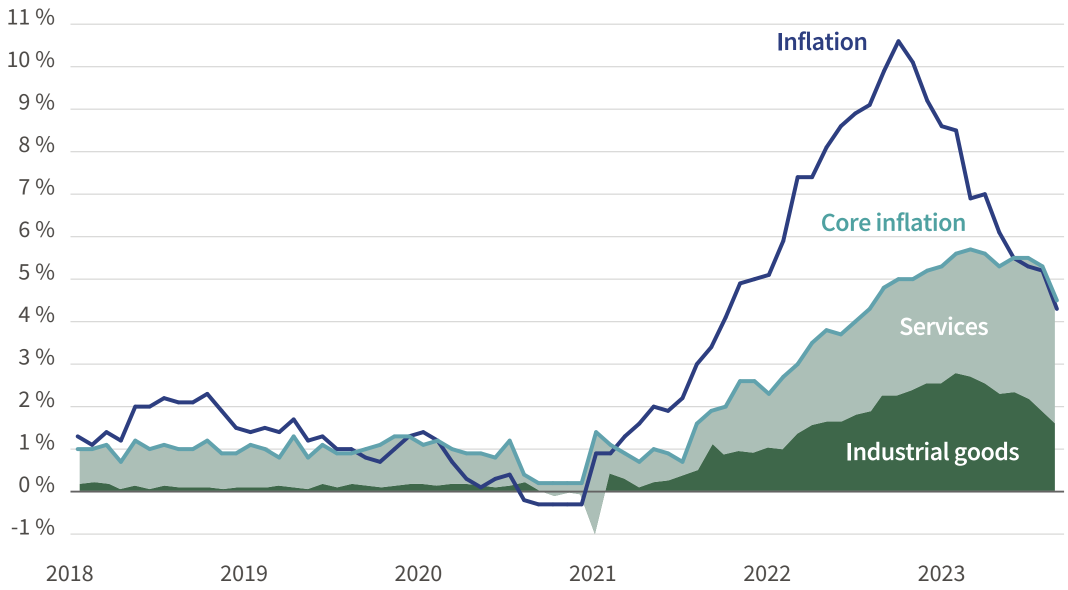


Sources: Bloomberg, Rothschild & Co Asset Management – 29/09/2023

(1) Consumer Price Index

Total inflation and core inflation – Eurozone

%



Sources: BCE, Bloomberg, Rothschild & Co Asset Management – 31/08/2023

Rising sovereign yields

With these stubborn inflationary pressures, nominal rates have soared, particularly in late September, peaking at 4.6% in the US and at 2.9% in Europe(6). Levels like these had not been seen since, respectively, 2007 and 2011(7). Accordingly, it may be wise to consider investing in sovereign debt, particular in anticipation of a potential recession. For, historically, during economic downturns assets deemed risk-free tend to perform well, offering solid protection for investor portfolios while generating a yield set by real rates.

How we are positioned on the credit market

The market is currently offering attractive yields, thanks to the rise in sovereign yields since 2021. To take one example, European Investment Grade(8) bonds are currently yielding 4.2%(9),

(6) Sources: Bloomberg, Rothschild & Co Asset Management, 29/09/2023

(7) Sources: Bloomberg, 29/09/2023

(8) Investment Grade bonds are issued by companies or governments rated between AAA and BBB- on the Standard & Poor's scale

Investment Grade and High Yield returns

Sources: Bloomberg, Rothschild & Co Asset Management – 15/09/2023

a level similar to that seen at the peak of the 2011 financial stress. High Yield(10), meanwhile, is on a nominal yield of 7%(11). However, it is essential to carefully analyse risk premiums in view of a possible cyclical downturn.

In our investment strategy, we have taken a moderately conservative approach, overweighting Investment Grade vs. High Yield, due to its close correlation to sovereign yields. This historically generates noteworthy positive returns after the end of monetary tightening cycles.

There is currently little difference in yields between cyclical and non-cyclical companies. Our strategy consists first in enhancing the aggregate quality of corporate bonds in our portfolio by overweighting, for example, A ratings vs. BBB ones, and then identifying issuer vulnerabilities borne of the economic cycle. On this basis, we exclude them from our portfolio and focus more on non-cyclical issuers.

(9) Source: Bloomberg, 29/09/2023

(10) High yield bonds are issued by companies or governments having a high credit risk. They are rated below BBB- by Standard & Poor's.

(11) Source: Bloomberg, 29/09/2023

Our fund selection

R-co Conviction Credit Euro

SRI risk : 1 **2** 3 4 5 6 7
Lower risk — Higher risk

EURO-DENOMINATED INVESTMENT GRADE BONDS
Inception date: 08/11/2019 | Recommended investment period: 3 years | Article 8 SFDR

The flagship fund in our bond range, R-co Conviction Credit Euro offers active and opportunistic management of the euro-denominated bond market. Its core portfolio consists of securities, complemented by satellite strategies and a careful selection of high yield and non-rated bonds. The investment strategy aims at a constant optimisation between yield and maturity as well as a careful monitoring of the portfolio's sensitivity.

Performance and risk indicator

	Year to date	2022	2021	2020	2019	2018	1 year volatility
R-co Conviction Credit Euro C EUR	4.04 %	-13.17 %	1.00 %	2.72 %	5.17 %	-3.58 %	3.68 %
R-co Conviction Credit Euro IC EUR	4.32 %	-12.86 %	1.37 %	3.09 %	5.55 %	-3.23 %	3.68 %
Markit iBoxx™ € Corporates	*2.44 %*	*-14.17 %*	*-1.08 %*	*2.73 %*	*6.29 %*	*-1.29 %*	*4.71 %*

Source: Rothschild & Co Asset Management. 29/09/2023.

R-co Target 2028 IG

SRI risk : 1 **2** 3 4 5 6 7
Lower risk — Higher risk

MATURITY FUNDS | EURO-DENOMINATED INVESTMENT GRADE BONDS
Inception date: 09/09/2022 | Recommended investment period: until 31/12/2028 | Article 8 SFDR

A credit fund based on a bond-carrying strategy until maturity, R-co Target 2028 IG invests in Investment Grade bonds from all geographical areas. This strategy is based on a selection of securities with an average maturity between January and December 2028 while benefiting from active management allowing for arbitrage in order to control the portfolio's risk level or seize market opportunities. The marketing period runs until 31 December 2023.

Yield to maturity: 5.0 %[1]

(1) Source: Rothschild & Co Asset Management, 29/09/2023.

R-co Thematic Target 2026 HY

SRI risk : 1 2 **3** 4 5 6 7
Lower risk — Higher risk

MATURITY FUND | EURO-DENOMINATED HIGH YIELD BONDS
Inception date: 28/02/2020 | Recommended investment period: until 31/12/2026 | Article 8 SFDR

R-co Thematic Target 2026 HY is a high-yield bond maturity fund that invests in euro-denominated bonds from all geographical areas. The selected securities have an average maturity between January and December 2026. The investment approach includes active, agile and disciplined management, making it possible to seize opportunities, arbitrate and even sell if the risk of default becomes too great. The marketing period runs until 1 September 2023.

Yield to maturity: 7.82 %

Performance and risk indicator

	Year to date	2022	2021	Since inception	1 year volatility
R-co Thematic Target 2026 HY C EUR	8.49 %	-11.63 %	5.29 %	17.62 %	4.53 %
R-co Thematic Target 2026 HY IC EUR	8.90 %	-11.17 %	5.82 %	18.21 %	4.53 %

Source: Rothschild & Co Asset Management, 29/0906/2023.

R-co Valor Bond Opportunities

SRI risk : 1 **2** 3 4 5 6 7
Lower risk — Higher risk

GLOBAL BONDS | CARTE BLANCHE
Inception date: 28/08/2019 | Recommended investment period: over 3 years | Article 8 SFDR

R-co Valor Bond Opportunities is an global bond fund with a «carte blanche» approach means that it can be invested in all segments of the bond market, across ratings, maturities and in geographical areas. Thanks to its flexibility and based on the analysis of growth, inflation and monetary policy outlooks, this investment solution aims to take advantage of the diversification of fixed income products by combining satellite strategies around a core credit portfolio.

Performance and risk indicator

	Year to date	2022	2021	2020	Since inception	1 year volatility
R-co Valor Bond Opportunities C EUR	4.22 %	-9.71 %	3.66 %	6.74 %	4.47 %	5.11 %
ESTER Capitalisé + 2.585%	*4.21 %*	*2.90 %*	*2.50 %*	*2.51 %*	*13.62 %*	*0.14 %*
R-co Valor Bond Opportunities I EUR	4.58 %	-9.31 %	4.14 %	7.01 %	4.25 %	5.11 %
ESTER Capitalisé + 3.035%	*4.55 %*	*3.34 %*	*2.95 %*	*2.96 %*	*15.67 %*	*0.14 %*

Source: Rothschild & Co Asset Management. 29/09/2023.

R-co Conviction Credit Euro

We have classified this product as risk class 2 out of 7, which is a low riskclass and mainly reflects its positioning on private debt products while having a sensitivity between 0 and +8. In other words, the potential losses associated with the future performance of the product are at a low level and, should market conditions deteriorate, it is very unlikely that our ability to pay you would be affected. The risk indicator assumes that you hold the product for 3 years, otherwise the actual risk may be very differentand you may get less in return.

Main risks: Discretionary management risk, interest rate risk, credit risk, counterparty risk, performance risk, risk of capital loss, risk related to the use of derivatives, risk related to temporary acquisitions and sales of securities, specific risk related to the use of complex subordinated bonds (bonds with a maturity of less than one year) of securities, specific risk related to the use of complex subordinated bonds (contingent convertible bonds, so-called «CoCs»).

R-co Thematic Target 2026 HY

We have classified this product as risk class 3 out of 7, which is a low risk class and mainly reflects its positioning on credit risk and interest rate products with a residual maturity of 1 year or less on 31 December 2026. In other words, the potential losses related to the future performance of the product are at a low level and, if the situation were to deteriorate in the markets, it is very unlikely that our ability to pay you would be affected. The risk indicator assumes that you hold the product until 31 December 2026, otherwise the actual risk may be very different and you may get less in return.

Main risks: Discretionary management risk, interest rate risk, credit risk, credit risk («speculative» or «high yield»), liquidity risk, counterparty risk, performance risk, risk of loss of capital, risk linked to the use of derivatives, exchange rate risk, equity risk, risk linked to exposure to non-OECD countries (including emerging countries)

R-co Target 2028 IG

We have classified this product as risk class 2 out of 7, which is a low risk class and mainly reflects its positioning on credit risk and interest rate products with a residual maturity of 1 year or less on 31 December 2028. In other words, the potential losses related to the future performance of the product are at a low level and, if the situation were to deteriorate in the markets, it is very unlikely that our ability to pay you would be affected. The risk indicator assumes that you hold the product until 31 December 2028, otherwise the actual risk may be very different and you may get less in return.

Main risks: Discretionary management risk, interest rate risk, credit risk, counterparty risk, performance risk, risk of capital loss, risk related to the use of derivatives, extra-financial criteria (ESG) risk, sustainability risk.

R-co Valor Bond Opportunities

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 that exposes the portfolio in a diversified way to the interest rate markets over the medium term. In other words, the potential losses related to the future performance of the product are low and, if the situation were to deteriorate in the markets, it is very unlikely that our ability to pay you would be affected. The risk indicator assumes that you hold the product for 3 years, otherwise the actual risk may be very different and you may get less in return.

Main risks: Discretionary management risk, interest rate risk, credit risk, credit risk («speculative» or «high yield»), counterparty risk, performance risk, risk of loss of capital, risk linked to the use of derivatives, specific risk linked to the use of complex subordinated bonds (convertible contingent bonds known as «CoCos»), exchange rate risk, equity risk, risk linked to exposure to non-OECD countries (including emerging countries).

Before investing, it is imperative to carefully read the PRIIPS DIC and the prospectus of the UCI, and more particularly its section on risks and fees, available on the Rothschild & Co Asset Management website: am.eu.rothschildandco.com

R-co Target 2027 HY

Recommended investment period: until 31/12/2027.

Risk indicator: 3/7.

The synthetic risk indicator is used to assess the level of risk of this product compared with others. It indicates the probability that this product will incur losses in the event of market movements or our inability to pay you. The risk indicator assumes that you keep the product until 31 December 2027. The actual risk may be very different if you opt to exit before maturity, and you may get less in return. We have classified this product in risk class 3 out of 7, which is between low and medium risk, and mainly reflects its positioning on credit risk and fixed-income products with a maximum residual maturity of 31 December 2029. In other words, the potential losses associated with the future performance of the product are low to medium and, if the situation were to deteriorate on the markets, it is unlikely that our ability to pay you would be affected. As this product does not provide protection against market fluctuations or a capital guarantee, you could lose all or part of your investment

R-co Target 2029 IG

Recommended investment period: until 31/12/2029.

Risk indicator: 2/7.

The synthetic risk indicator is used to assess the level of risk of this product compared with others. It indicates the probability that this product will incur losses in the event of market movements or our inability to pay you. The risk indicator assumes that you hold the product until 31 December 2029. The actual risk may be very different if you opt to exit before maturity, and you may get less in return. We have classified this product in risk class 2 out of 7, which is a low risk class and mainly reflects its positioning on credit risk and fixed-income products with a maximum residual maturity of 31 December 2030. In other words, the potential losses linked to the future performance of the product are low and, if the situation were to deteriorate on the markets, it is very unlikely that our ability to pay you would be affected. As this product does not provide protection against market fluctuations or a capital guarantee, you could lose all or part of your investment.

Before investing, it is imperative to carefully read the PRIIPS DIC and the prospectus of the UCI, and more particularly its section on risks and fees, available on the Rothschild & Co Asset Management website: am.eu.rothschildandco.com

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As the specialised asset management division of the Rothschild & Co group, we offer personalised asset management services to a broad client base of institutional investors, financial intermediaries and distributors.

Our development is focused on a range of open-ended funds, marketed under five strong brands: Conviction, Valor, Thematic, 4Change and OPAL, leveraging our long-term expertise in active management with conviction as well as in delegated management. Based in Paris and established in 9 European countries, we manage more than 27 billion euros and employ nearly 160 people.

More information at: www.am.eu.rothschildandco.com

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Rothschild & Co
Asset Management

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