

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?

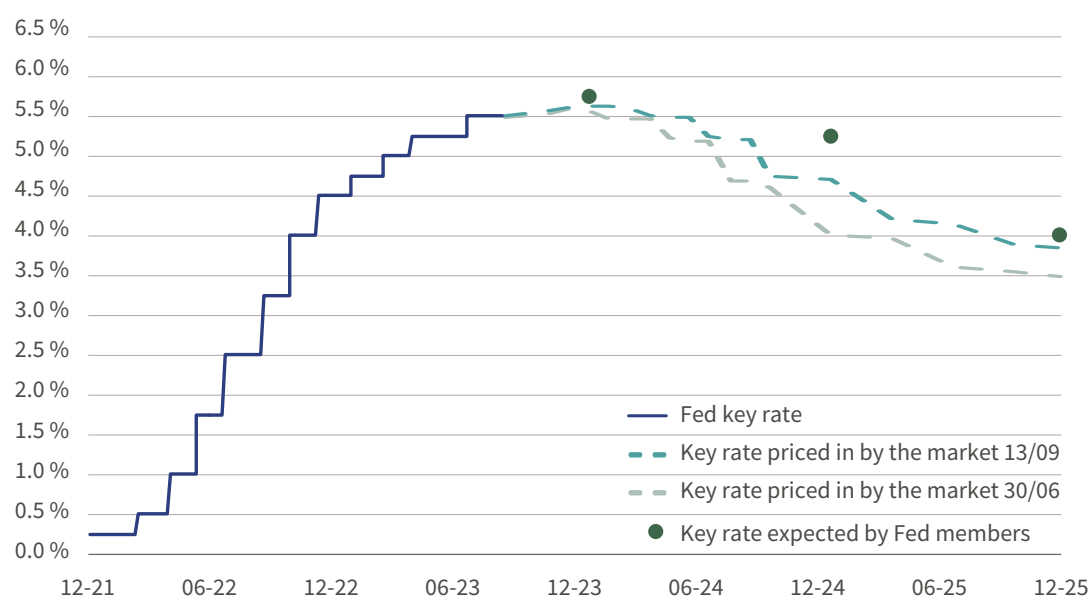
Leading indicators are sending out worrisome signals, with the PMI manufacturing staying below the critical threshold of 50 since the start of the year⁽²⁾. PMI services are on a similar trend, converging towards levels that point to economic trouble.

(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

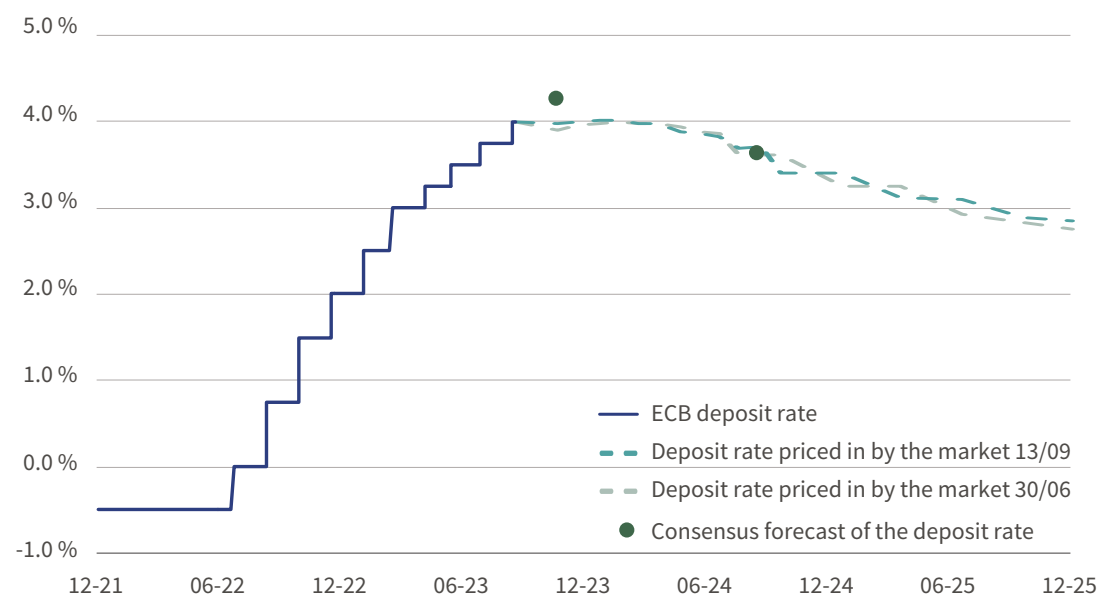
%



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⁾.

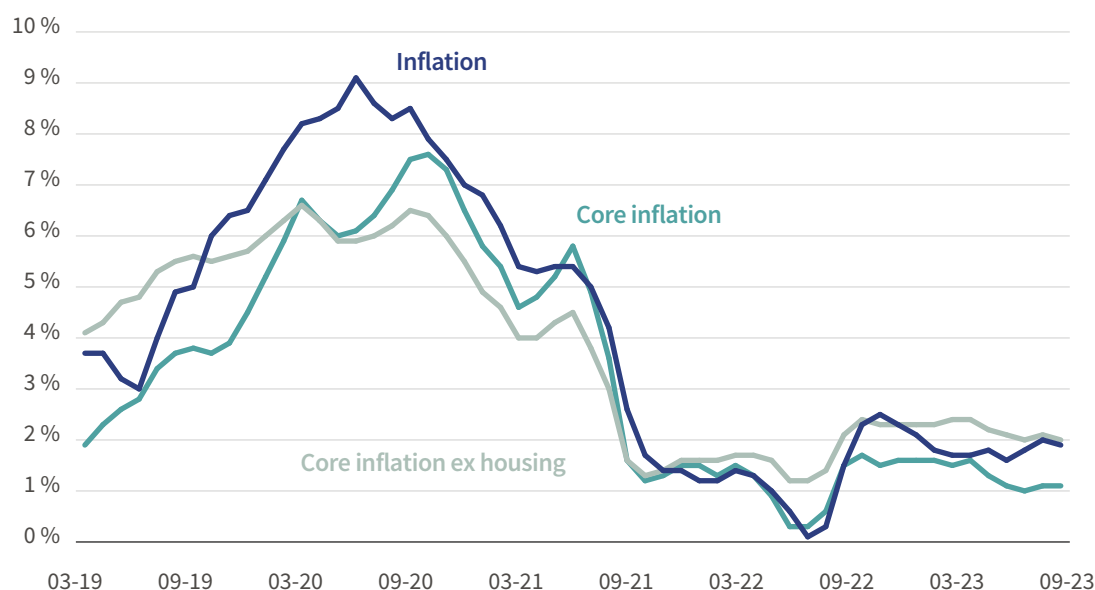
(3) Source: Bloomberg, 29/09/2023

(4) Ex energy and food

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

CPI⁽¹⁾ inflation indices – United States

%

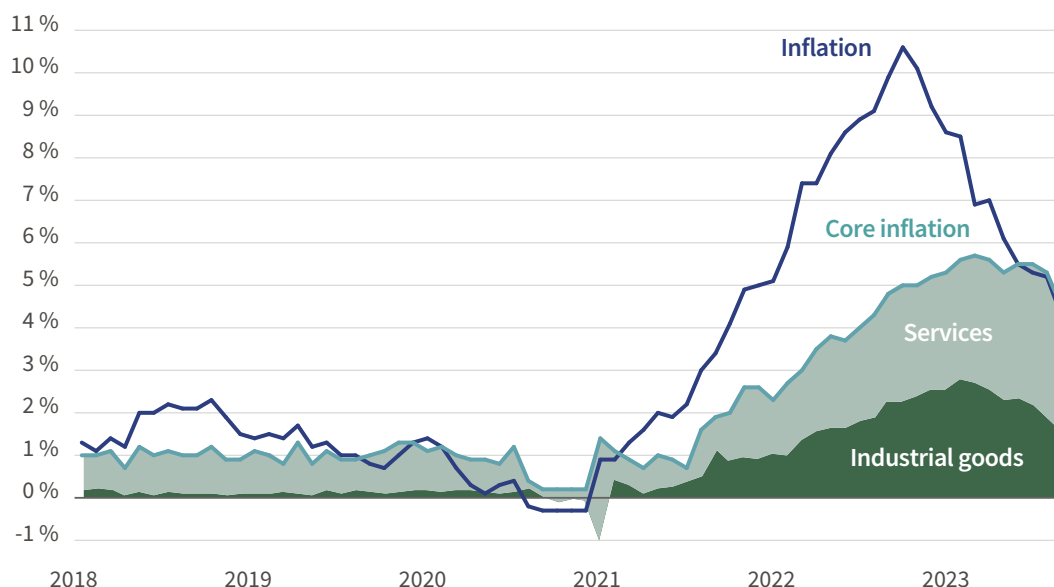


Sources: Bloomberg, Rothschild & Co Asset Management – 29/09/2023

(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 :



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 :



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 Valor Bond Opportunities

SRI 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 %
<i>ESTER Capitalisé + 2.585%</i>	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 %
<i>ESTER Capitalisé + 3.035%</i>	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 risk class 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 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, 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 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

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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.

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