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Bonds markets entered 2026, with the expectation of a prolonged status quo

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from the European Central Bank (ECB), thanks to inflation staying at its target level

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and a US Federal Reserve that would cut rates

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because of a fragile labor market.

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The conflict in Iran profoundly disrupted this outlook,

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creating high inflation prospects not only for energy prices

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but also for many other components such as food,

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while potentially weakening growth in numerous countries.

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Central banks wanted to show that they would be proactive

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if needed, with a bias towards higher rates.

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This heavily pushed up the shorter end
of the yield curves, especially in Europe.

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For example, the German two year rate
moved from 2% on February 27th

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to 2.7% on March 26th,

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reflecting basically three time 25 basis point
hikes from the ECB policy rates.

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We think this is too high and would probably damage growth.

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Long term rates, however, have not increased as much

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because the economic impact
is expected to be manageable

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if central banks can adapt.

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The German ten year yield rose by only
45 basis points over the same period.

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This resulted in what we call a flattening of the yield curve,

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contrary to the strong consensus for 2026.

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Indeed, many market participants, especially hedge funds,

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have been betting on a steepening of the curve,
partly due to the regulatory change

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affecting Dutch pension funds

that basically would need

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to invest less in long maturities
and would reduce demand.

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In March, many investors were caught off guard
across the entire yield curve

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amid extreme volatility
as markets reacted abruptly

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to President Donald Trump's statements
about the Middle East conflict.

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The credit market also suffered a widening of spreads,
but the move remained limited.

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The average investment grade spread over sovereign debt

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widened from 80 basis points to 95 basis points,

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while the primary markets stayed active.

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For high yield, the average spread increased
from 290 basis points to 340 basis points.

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So definitely not a credit crisis.

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For several months,

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we have been cautious about bond valuation.

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In the US expectations of rate cuts were too high

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while we anticipated relatively high inflation
because of President Trump's policies.

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And we believed the credit market was expensive
due to the possible transmission of private asset risk.

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We therefore, entered this conflict in March with risk budgets

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that were lower than those we had at the end of 2025.

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This context created an investment opportunity to capture higher yields.

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For example,

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on sovereign debts and real yields, which are less sensitive to volatility

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and by being selective on certain countries, such as Italy.

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We anticipated that the five year and ten year rates could also fall because of the potential growth risk.

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Regarding the credit market,

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the logic was the same.

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The average investment grade yield in Europe reached 3.7% and 6% for high yield.

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We therefore kept investing, but with a preference for sectors that are less exposed to this difficult environment,

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namely the banking or real estate sectors,

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and typically defensive sectors such as utilities and telecoms.

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We are far from our maximum risk budgets because spreads remain expensive

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and we will wait for opportunities to take advantage of higher yields.

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Of course, for the US high yield segment,

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our experts continue to focus on issuers and sectors

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that we believe would be either immune to or would benefit from disruption fears linked to artificial intelligence.

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Finally, regarding emerging market debt we maintain our core convictions

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on US dollar denominated debt from Mexico and Romania.

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For local currency debts, we prefer Brazil and South Africa,

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while remaining generally cautious in Asia because of its energy dependence on the Middle East,

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and we remain underweight on Middle East debts.

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In terms of what has stood out this quarter,

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I would start with the shorter end of the curve.

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Money market strategies acted again
as a safe haven asset, and we believe

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the outlook is very positive, possibly
with higher policy rates on the horizon.

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A little further out in terms of maturity,
short duration strategies have

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on the whole held up
well since the start of the year.

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High yield in particular has remained relatively supported,
being less sensitive to sovereign rate moves.

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Our active management has generated
outperformance versus the benchmarks

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while positioning the strategy to deliver more in the months ahead.

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Meanwhile, we believe that absolute return
and euro credit total return strategies

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could potentially be well positioned to
navigate these volatility driven crises.

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In summary, it has been a turbulent quarter

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that created potential buying
opportunities and underscores

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that selectivity remains critical
for this year.

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Thank you for watching this video and see you soon.