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After the Rally, Why Bonds Deserve a Stronger Role

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After the Rally, Why Bonds Deserve a Stronger Role

Global equities have enjoyed another impressive rally, but strong market performance also creates an opportunity to rebalance. Guillaume Passebecq, Chief Executive Officer of Necker Finance, explains why rebuilding a diversified fixed-income allocation could help investors lock in attractive yields while strengthening portfolio resilience.

Markets have performed strongly. Why consider rebalancing now?

Strong performance can gradually distort an asset allocation. As equities rise, they represent a larger share of the portfolio and expose the investor to more risk than originally intended.

Rebalancing allows us to crystallise part of those gains and redeploy capital into assets offering a more visible return profile.

This is not a call to exit equities. They remain essential for long-term capital growth. It is about restoring balance and rebuilding a stronger fixed-income core at a time when bonds are once again offering meaningful yields.

What has fundamentally changed for bonds?

For many years, investors received very little income from high-quality bonds. To generate acceptable returns, they had to extend maturities significantly or move into weaker credit.

Today, investors are once again being paid to hold bonds. Attractive yields are available across different maturities, currencies and credit profiles.

Fixed income can therefore resume its traditional role within a portfolio: generating income, diversifying equity exposure and contributing to capital preservation.

The key difference is the starting yield. Investors no longer need to rely entirely on rising bond prices to produce a return. A significant part of the potential performance is already embedded in the portfolio.

Is this primarily a carry strategy?

Yes. Carry should be the foundation of the bond allocation.

A carry strategy consists of selecting bonds offering an attractive yield and holding them over a sufficiently long period to benefit from their coupons and expected redemption value.

The yield to maturity represents the annualised return an investor could receive if a bond is held until maturity, coupons are reinvested and the issuer meets all its obligations.

For a bond fund, the portfolio yield to maturity aggregates the yields of the underlying securities. It is not a guaranteed return, but it provides the client with a useful indication of the portfolio's return potential at a given date.

> Strong equity gains create timely portfolio rebalancing opportunities

This creates something investors have been missing for years: greater visibility.

Carry allows us to begin with an identifiable source of return instead of depending entirely on future market appreciation.

But long-term interest rates could still rise. Is that not a major risk?

It is a risk, particularly given persistent inflation pressures, large public deficits and growing government refinancing needs.

For that reason, we would not concentrate the entire allocation in long-duration bonds. Long maturities could perform strongly if rates decline, but they are also more exposed if long-term yields move higher.

The solution is to diversify duration.

Short-duration strategies offer lower sensitivity to rate movements. Intermediate maturities allow investors to lock in yields for longer without taking excessive duration risk. Longer-duration exposure can then be introduced selectively to provide additional performance if rates eventually decline.

We are not trying to make one perfect prediction about interest rates. We are building a portfolio capable of navigating several different scenarios.

How can different durations be combined?

Each segment of the bond allocation should have a specific purpose.

A short-duration fund can provide the first step beyond cash. It seeks to generate additional income while limiting sensitivity to rising rates.

A diversified Investment Grade strategy can form the core of the allocation. It offers stronger credit quality, liquidity and a greater potential benefit if rates decline.

Target-maturity funds can then be used to align investments with future liquidity needs. A strategy targeting 2028 can address a medium-term objective, while a 2031 fund can secure yields over a longer period.

Finally, flexible credit strategies can provide additional return potential for investors with a longer horizon and greater risk tolerance.

Different durations allow us to build a portfolio around the client's financial objectives rather than around a single interest-rate forecast.

How does the Tailor credit range illustrate this approach?
At Necker Finance, we have extensive experience working with Tailor Asset Management, a French asset manager recognised for its specialist expertise in credit markets. Tailor offers a range of complementary fixed-income strategies spanning different durations, target maturities and credit profiles. Within our open-architecture approach, this breadth enables us to select and combine the most appropriate solutions according to each client's investment horizon, liquidity requirements, return objectives and risk profile.Tailor Asset Management offers several complementary strategies covering different durations and credit profiles.

Tailor Crédit Short Duration, with a recommended investment horizon of two years and an average portfolio maturity of no more than two years, is positioned as a potential alternative to money-market investments. Its role is to generate additional carry while maintaining relatively low interest-rate sensitivity. As of July 31st, 2026, the fund reported a gross yield to maturity of approximately 4.3% in euros and 5.8% in US dollars.

Tailor Crédit Rendement Cible can form the Investment Grade core over a recommended horizon of more than five years. As of July 31st, 2026, the fund reported a gross yield to maturity of approximately 4.4% in euros and 5.9% in US dollars, with an average BBB rating. This strategy combines carry with the potential benefit of lower interest rates. Active management which also allows the manager to take profits on bonds that have performed well and reinvest in securities offering a more attractive yield for a comparable maturity and credit quality.

Tailor Crédit 2028 follows a target-maturity approach predominantly invested in High Yield corporate bonds. As of July 31st, 2026, it reported a gross yield to maturity of approximately 5.1% in euros and 6.6% in US dollars, with low interest-rate sensitivity and diversification across more than 130 issuers.

Tailor Crédit 2031 extends the same target-maturity approach over a longer horizon, allowing investors to lock in current yields for capital that can remain invested for longer. As of July 31st, 2026, it reported a gross yield to maturity of approximately 5.6% in euros and 7.1% in US dollars.

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Finally, **Tailor High Yield Opportunities** provides a more flexible strategy. The manager can allocate between High Yield, Investment Grade and selected structured-credit opportunities while actively adjusting duration. As of July 31st, 2026, it reported a gross yield to maturity of approximately 6.0% in euros and 7.5% in US dollars.

The objective is not to select one fund, but to combine several strategies to construct a tailor-made fixed-income allocation.

What could that allocation look like in practice?

A strong fixed-income core could combine:

- a short-duration fund for liquidity and protection against rising rates
- an Investment Grade strategy for quality and stability over the medium term
- a 2028 target-maturity fund for medium-term carry
- a 2031 target-maturity fund to secure yields for longer
- a flexible credit strategy for additional return potential

This creates a bond ladder across different maturities.

If long-term rates rise, the short-duration component should help contain overall volatility. If rates decline, the intermediate and longer-duration allocations may benefit from capital appreciation. If rates remain broadly stable, the portfolio continues to collect its embedded yield.

The portfolio is therefore not dependent on one market scenario.

Is High Yield appropriate within this core?

High Yield can provide additional income, but it should complement rather than replace an Investment Grade foundation.

The segment includes both resilient companies with manageable debt and weaker issuers facing structural pressure. Credit selection and diversification are therefore critical.

Target-maturity funds can improve visibility by focusing on a defined repayment period. However, the additional yield is attractive only if it adequately compensates the investor for default, liquidity and recovery risks.

> “Higher bond yields restore income, diversification and stability

What should clients understand about yield to maturity?

Yield to maturity is an indication, not a promise.

The realised return may differ because of defaults, changes in interest rates or credit spreads, portfolio transactions and management fees.

Currency also matters. A higher US-dollar yield may be offset by exchange-rate movements for an investor whose reference currency is the euro. Currency exposure should therefore be hedged when it is not intended to be an independent source of return.

Yield must always be assessed alongside duration, average credit quality, liquidity and diversification.

What is your central message to investors?

After a strong period for financial markets, it may be appropriate to secure part of the gains and restore a better balance between growth and income.

We are not suggesting abandoning equities, nor are we making an aggressive call that interest rates must fall. Long-term yields could still rise.

The investment case for bonds is more straightforward: carry has returned. Investors can once again secure identifiable yields and diversify across several durations.

By combining short-duration, Investment Grade, target-maturity and flexible credit strategies, we can create a strong fixed-income core aligned with each client's risk profile, investment horizon and future liquidity requirements.

The opportunity is not simply to buy bonds. It is to secure income, diversify duration and rebuild balance after a strong market run.

Tailor AM funds' figures are based on July 31st, 2026.
Past performance is not indicative of future results.