

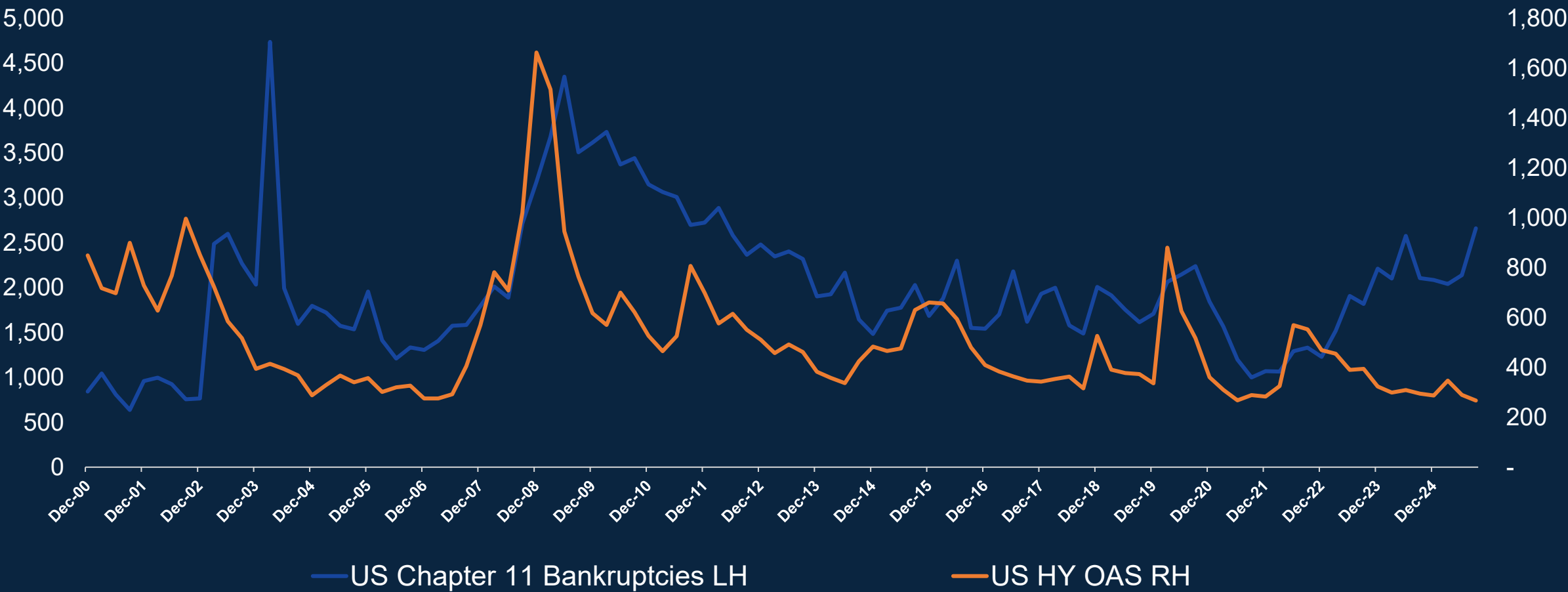
The Case for Defensive Fixed Income

Credit spreads have compressed to their tightest levels in decades even as underlying economic stress signals intensify. Rubrics’ defensive positioning across the product suite reflects a fundamental conviction: current market pricing fails to account for deteriorating credit fundamentals, excessive fiscal dependency, and the weaknesses inherent in an increasingly bifurcated economy. The top 10% of earners now drive nearly half of all consumer spending while subprime auto delinquencies have reached record levels. This K-shaped reality, combined with high yield spreads in the bottom ~2% of their historical range, presents an asymmetric risk-reward profile that warrants minimal credit exposure until spreads widen to reflect underlying conditions.

Spread Metric	Percentage Rank	Credit Metric	Percentage Rank
US IG Spreads	1.6	US Corporate Bankruptcies	84
US HY Spreads	2.2	US Credit Card Delinquencies	72
EUR IG Spreads	5.7	US Auto Loan Delinquencies	93

Source: Bloomberg as at 13/01/26, Percentages for the period 2000 - 2025

HY Spreads vs Bankruptcy Divergence



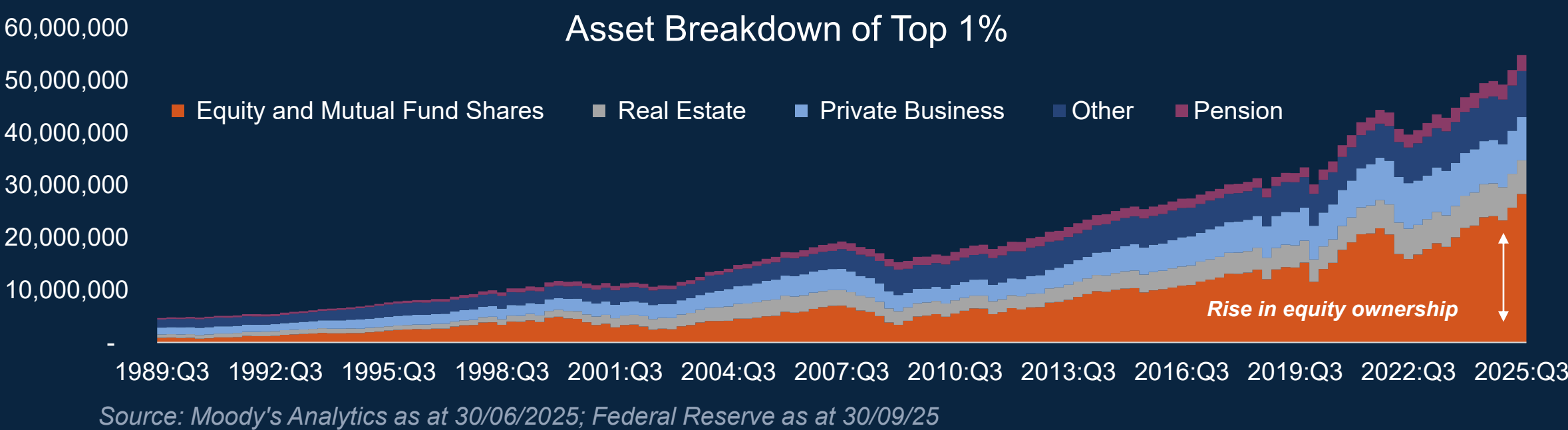
Source: Bloomberg, as at 30/09/25

Bifurcation: Consumption

The top 10% of households account for **49.2% of all U.S. consumer spending** — the highest concentration since tracking began in 1989, up from 35% in the early 1990s.

Equity market contribution to top 1% wealth has doubled in twenty years to >50%. This creates systemic fragilities:

- Consumer-facing businesses dependent on the bottom 80% face margin compression
- Any wealth effect reversal from equity decline would have outsized impact on spending



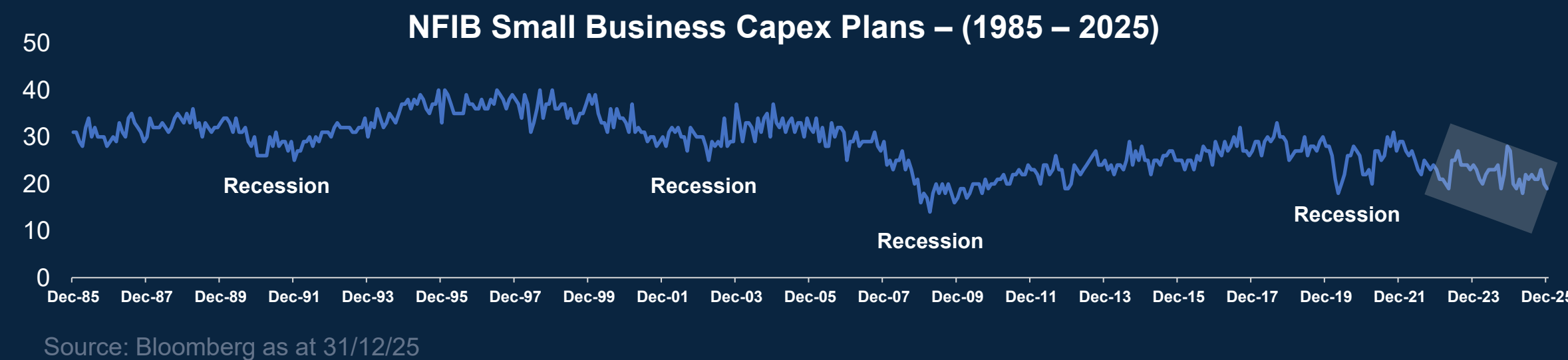
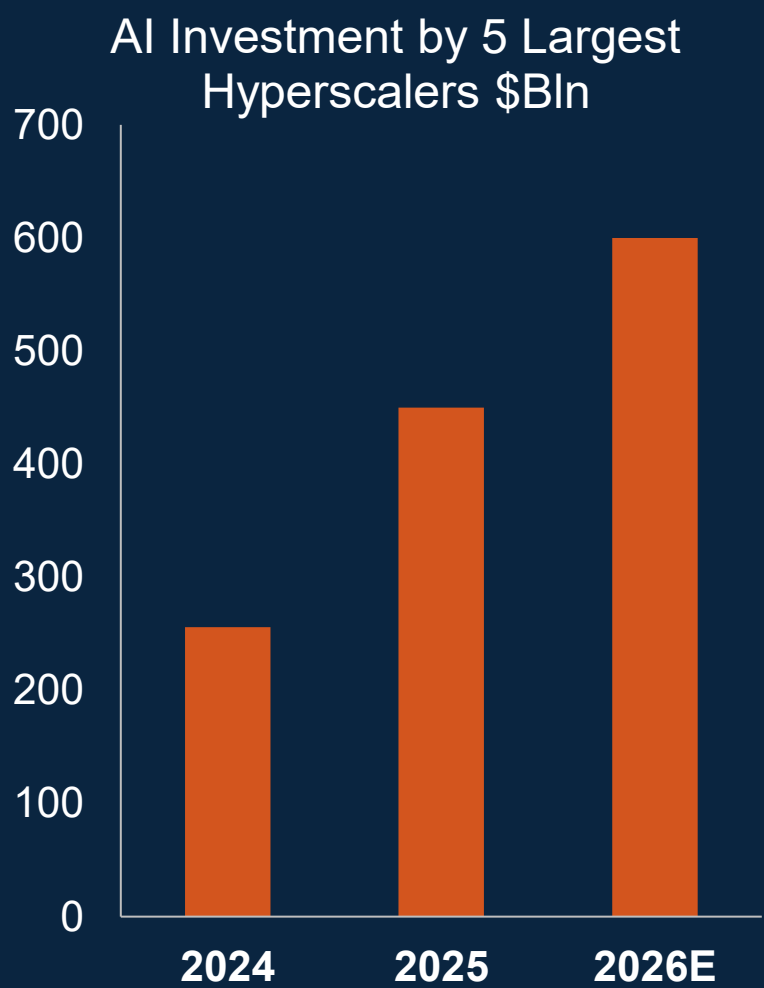
Bifurcation: Investment

AI-related investment made up almost **40% of GDP growth** through first 3 quarters of 2025 — surpassing the 28% IT contribution at the dot-com peak.

	Real GDP	Info Proc.	Software	R&D	Data Ctr
2000	2.94%	0.58	0.11	0.12	—
9M 2025	2.51%	0.42	0.35	0.13	0.07

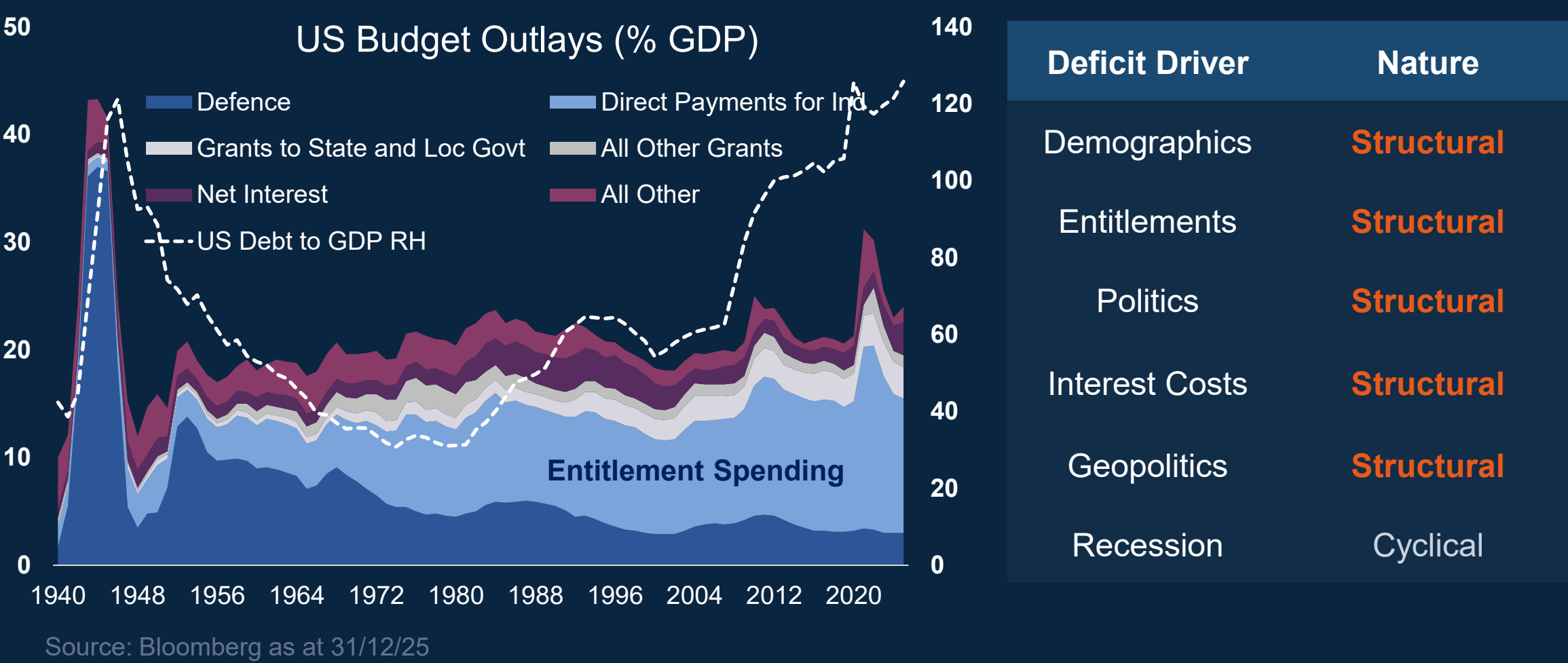
Source: Bloomberg as at 31/12/25

The five largest hyperscalers spent ~\$450bn on AI-linked CapEx in 2025, with 2026 estimates approaching \$600bn. Small business CapEx plans on the other hand reflect an economy operating at stall speed.



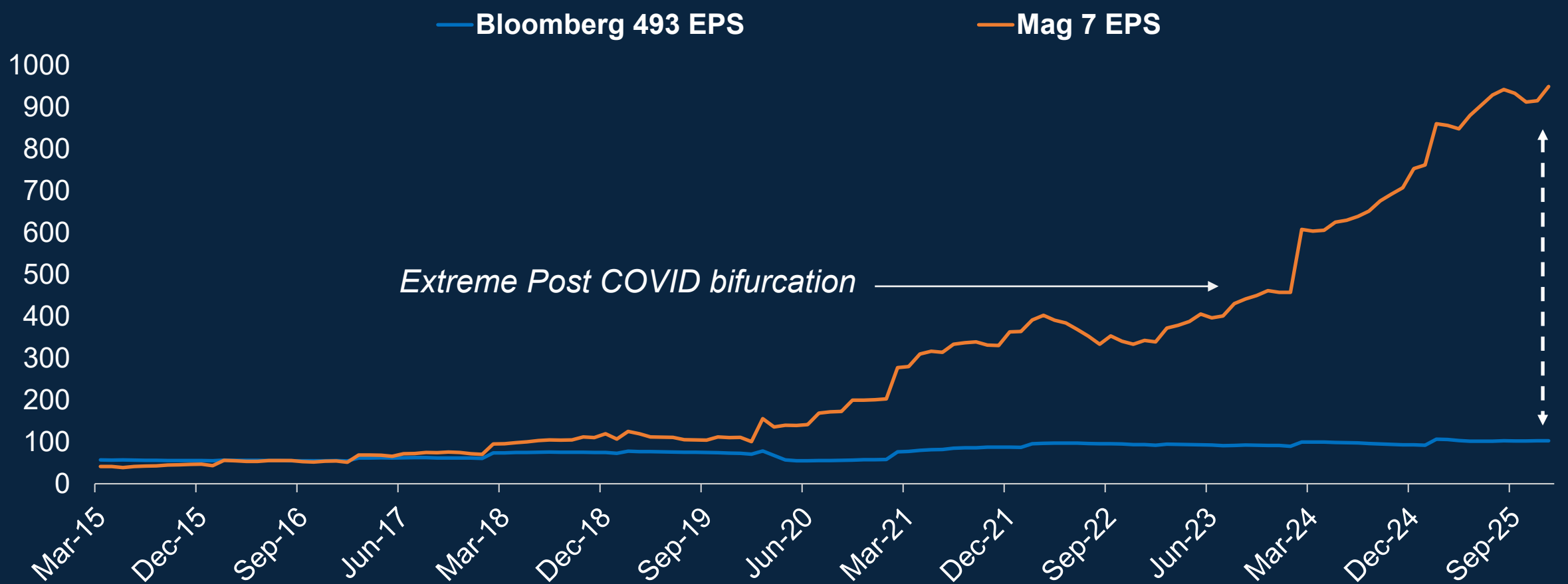
Bifurcation: Government

Pro-cyclical deficit spending has been a feature of US domestic policy since Trump 1.0. **The shift appears structural in nature** and necessary to support continued growth in an increasingly lopsided economy.



Bifurcation: Corporate Earnings

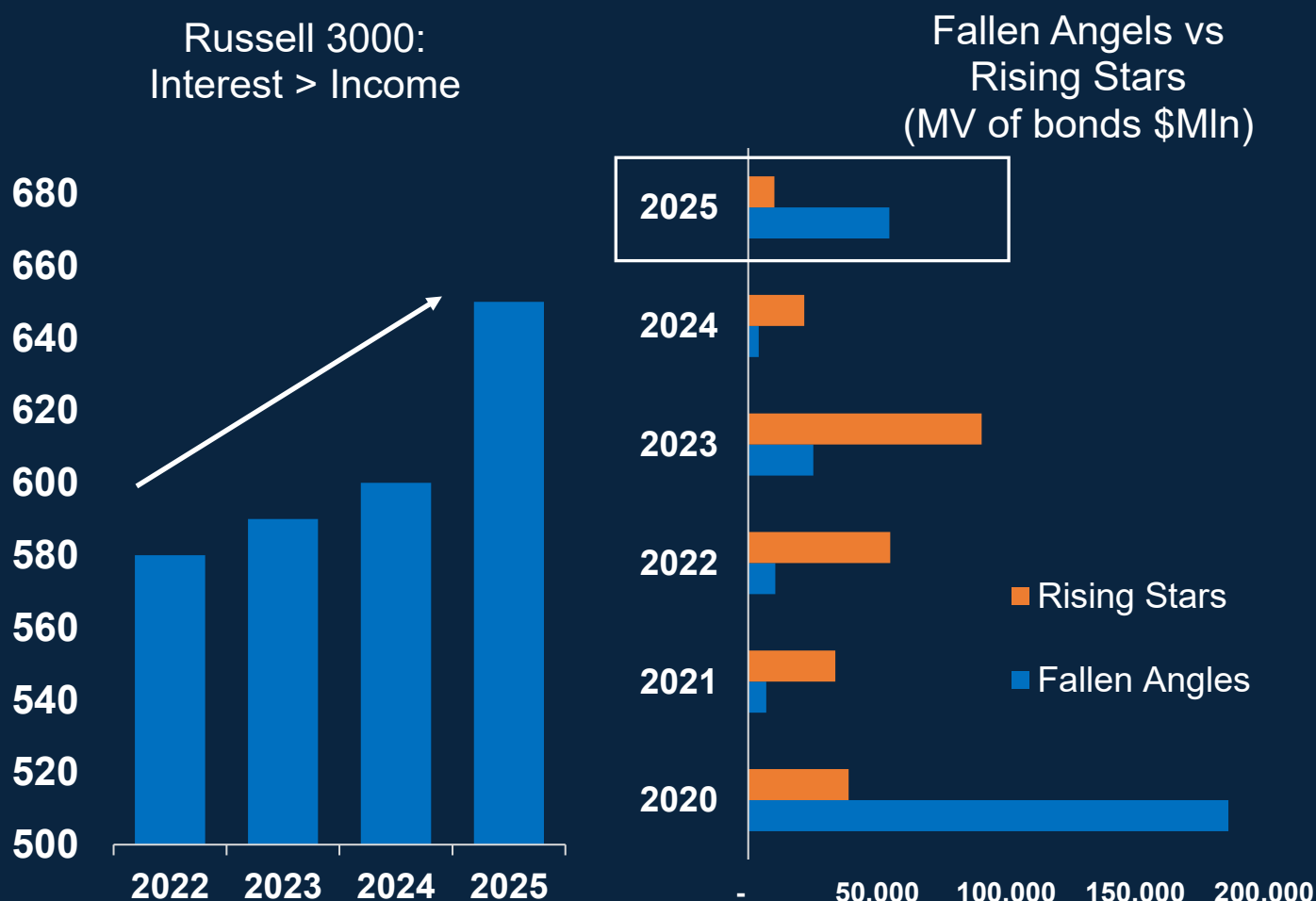
The Magnificent 7 stocks have driven over **50% of earnings growth** in the S&P 500 since 2024.



Source: Bloomberg as at 31/12/25

While the top echelon of US companies continue to deliver on lofty earnings expectations (for now) a closer **look at the broader health of corporate America reveals some troubling dynamics:**

- increase in corporate ‘zombification’
- rise in the number of companies being downgraded to junk status



Source: Bloomberg as at 31/12/25

Source: Bloomberg as at 31/12/25

5:1

Fallen Angels to Rising Stars ratio — widest since 2020

Fallen Angels

Downgrades to junk status outpacing upgrades by widest margin since pandemic

Zombie companies continue to climb despite lower interest rates

Risks: Great Expectations

Economy and markets are "all in" on AI delivering productivity gains that can drive economic growth and continued positive earnings momentum.

EARNINGS FORECAST

+30%

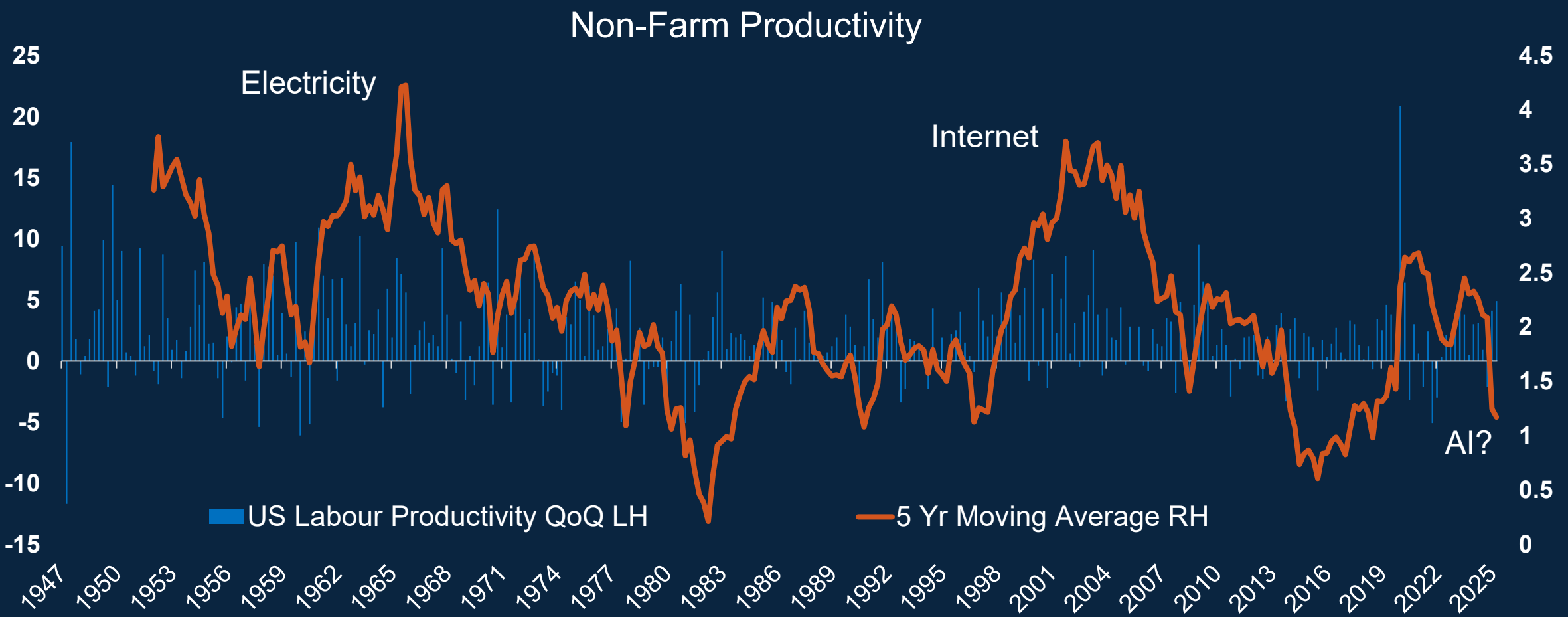
Mag 7 Expected

+10%

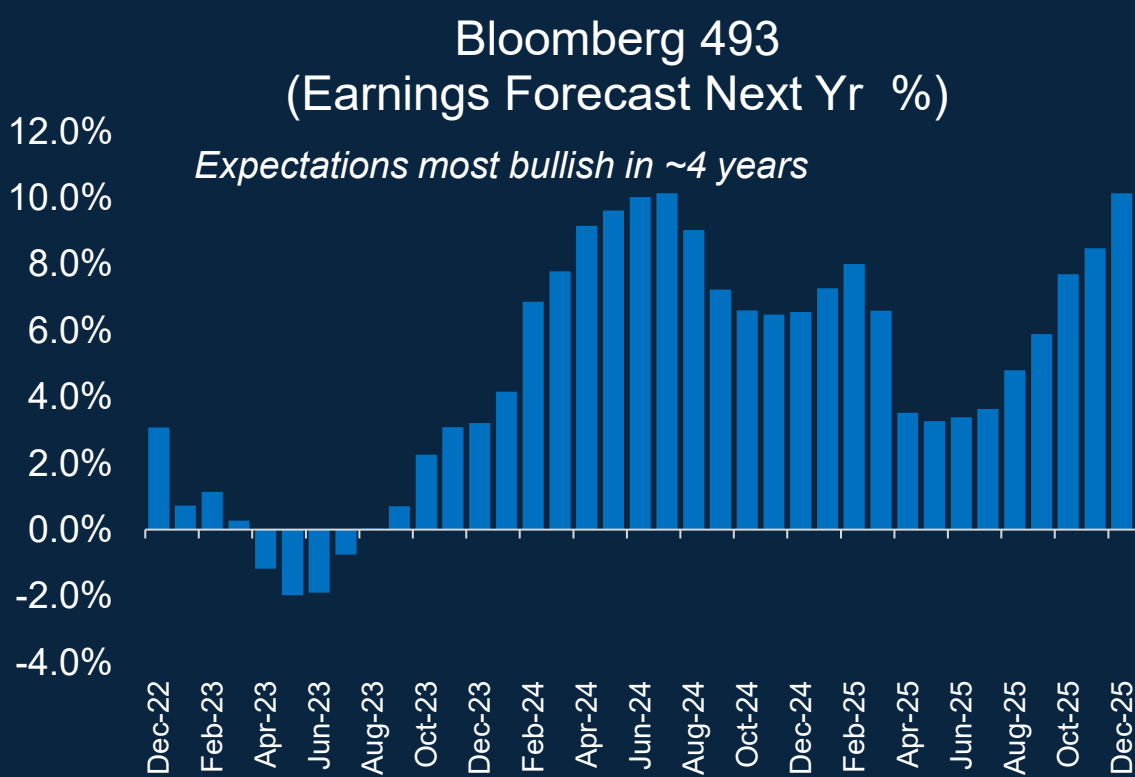
Broader Market

Susceptibility to revenue disappointment is acute given current pricing.

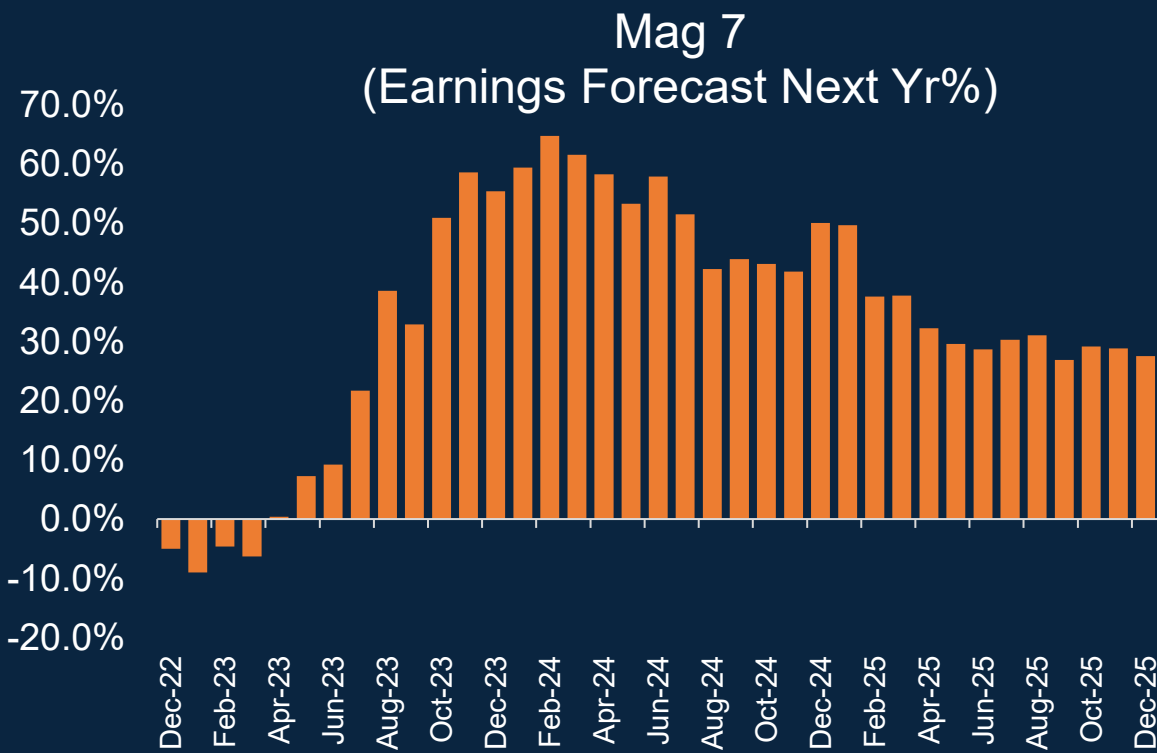
Notwithstanding the growth generative possibilities of AI at an economic level, **the transition of the hyper-scalers from asset light to asset heavy businesses has created real pressure to deliver substantial revenues** in a timely manner.



Source: Bloomberg as at 31/12/25



Source: Bloomberg as at 31/12/25



Source: Bloomberg as at 31/12/25

Risks: Policy Errors

Perhaps the biggest fallout from the extended period of fiscal largesse is the heightened risk of a policy misstep:

- A monetary policy decision to cut rates in the face of stubborn inflation
- A foreign policy act which spurs further foreign selling of US assets

With a Q1 bump in growth forecasted due to Trump's 'Big Beautiful Bill' and the, US Treasury market beholden to leveraged investors (hedge funds via basis trade) like never before.

+100bp

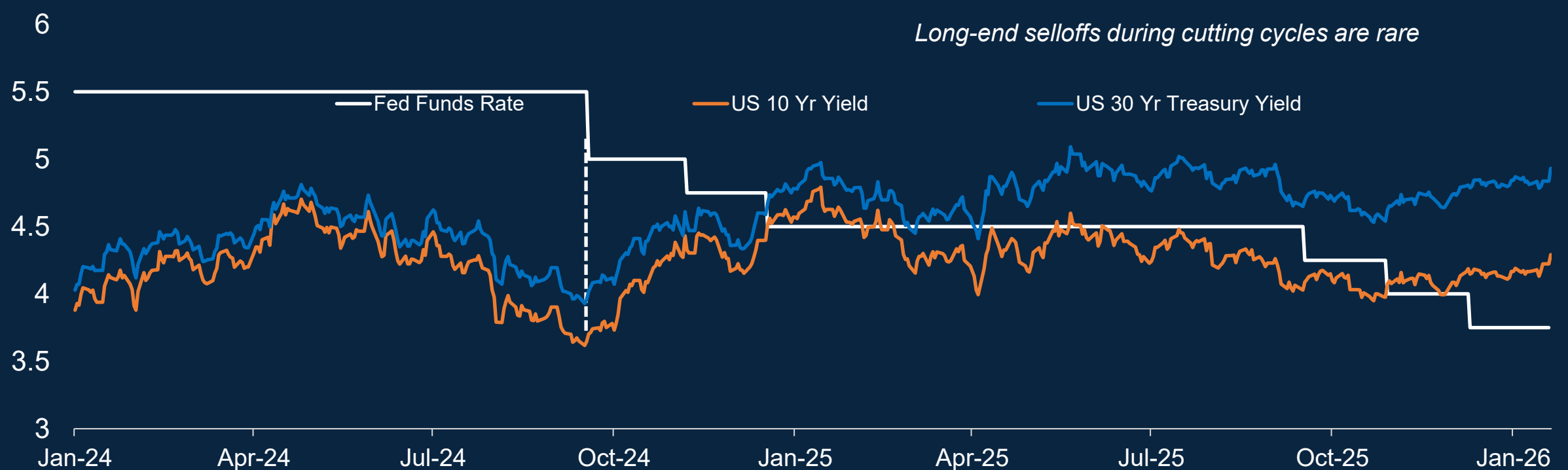
30yr since Fed cut cycle

+70bp

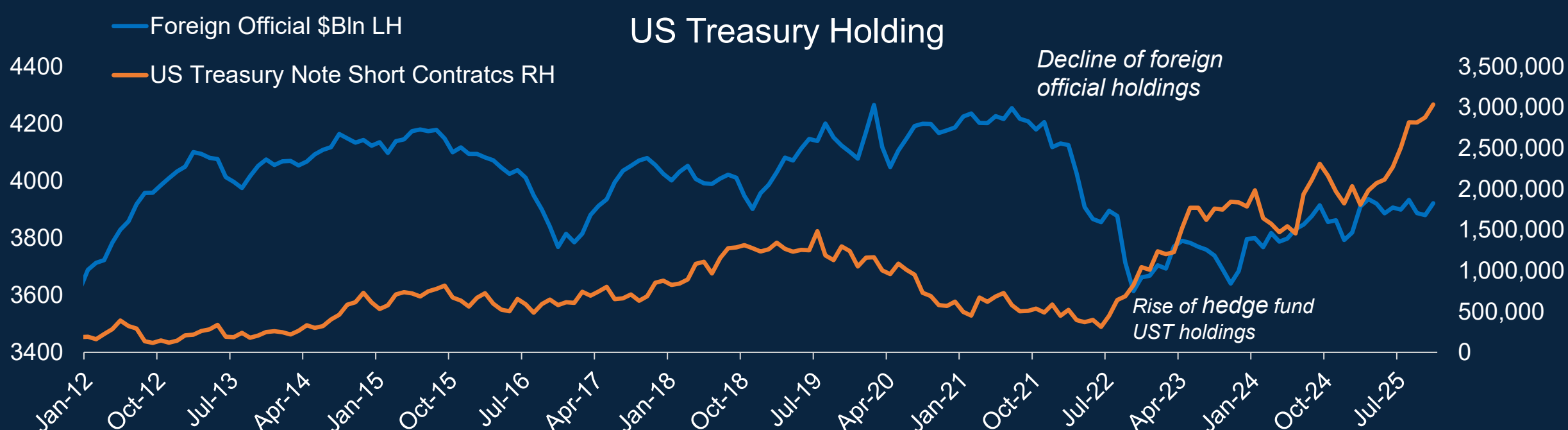
10Y UST

Long term inflation expectations remain far from anchored while the US (and many other developed market governments) struggle to fund increasing amounts of debt issuance. **It is therefore critical that fiscal and monetary credibility are prioritized** to prevent an unwanted tightening in financial conditions.

Fed Funds Rate vs Long End US Treasuries



Source: Bloomberg as at 31/12/25



Source: Bloomberg as at 31/12/25

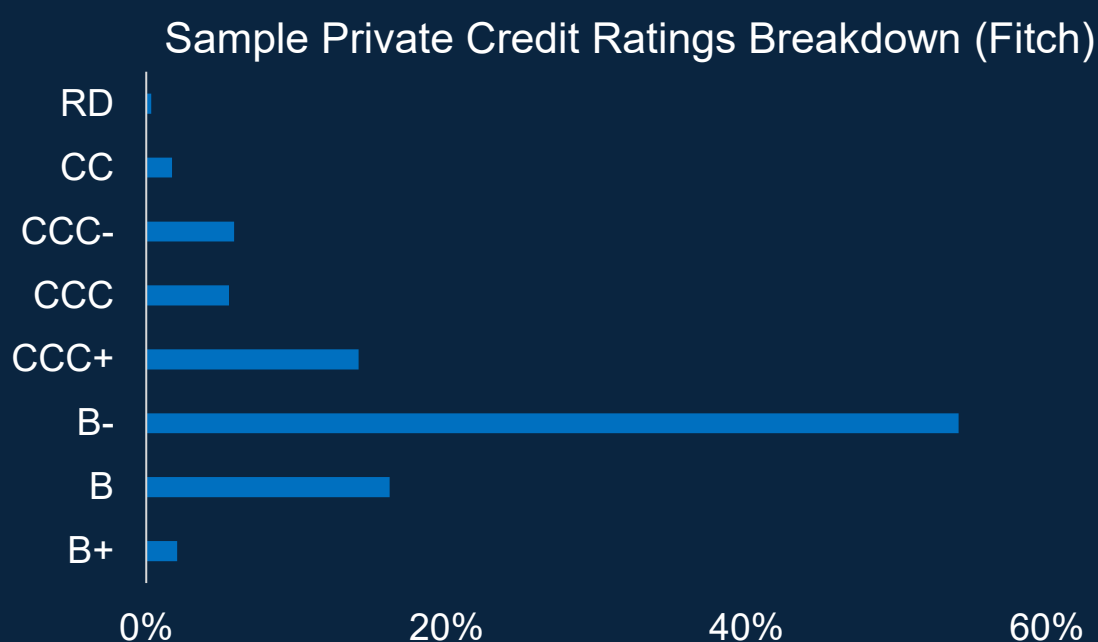
Risks: Private Markets

Global private credit reached **US\$3.5 trillion** AUM by end of 2024, up 17% YoY. The flow of assets into private markets has **helped dampen broader credit market volatility despite the challenging backdrop**. Average leverage within the middle market private credit sphere hit **7x** with 20% of companies below 1x EBITDA interest coverage in 2024 per S&P Global Ratings.

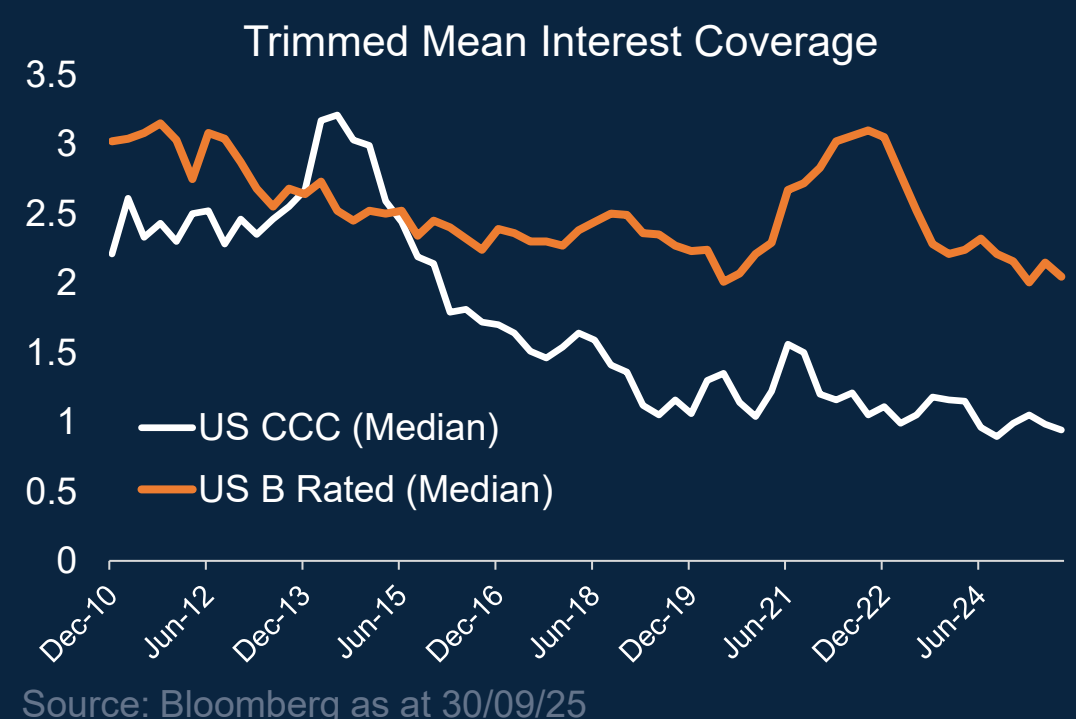
If underlying borrowers can't sustainably pay, then either:

- Principal will be lost, or
- The system requires constant new capital inflow to pay existing investors — i.e., Ponzi dynamics

*The question isn't whether private credit will have a reckoning.
It's when — and how much of that \$3.5 trillion will be revealed as impaired.*



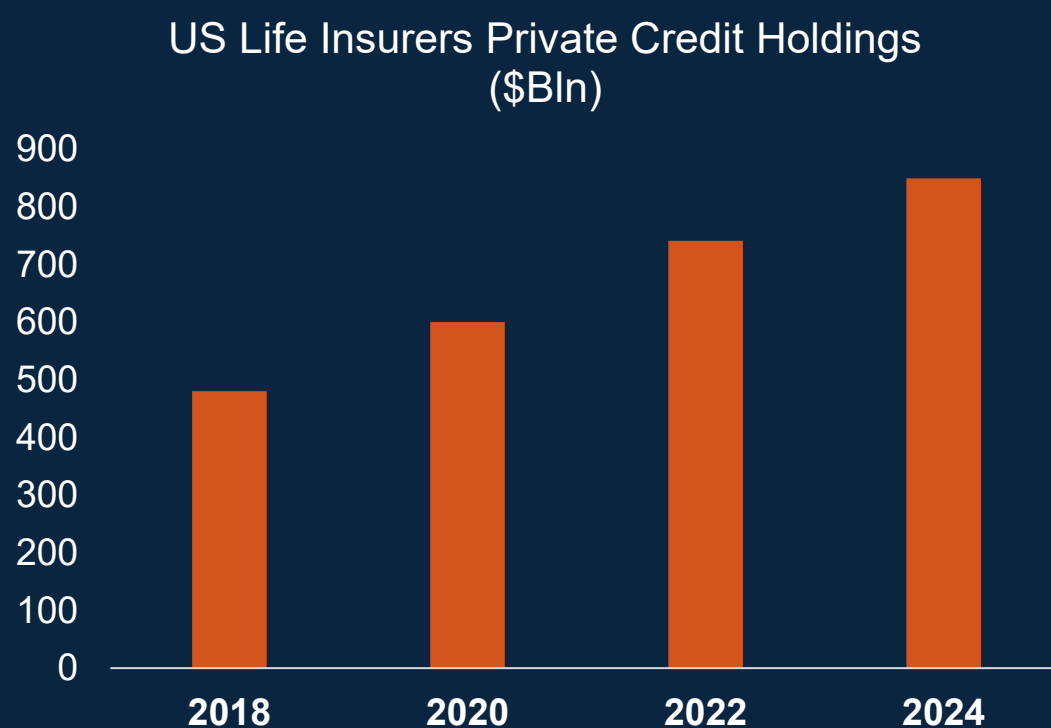
Source: Fitch as at 31/12/24



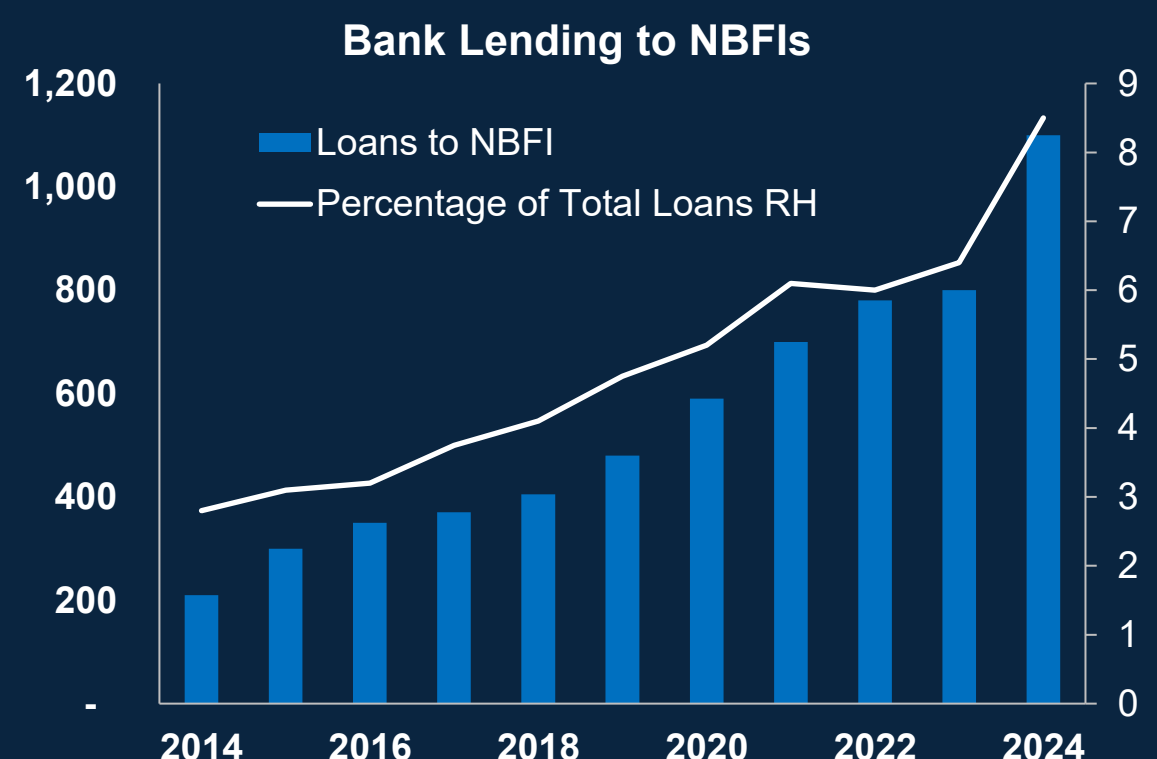
Source: Bloomberg as at 30/09/25

Given the levels of leverage employed at the company level, **even modest declines in EBITDA can create insolvency**.

If the default correlation among loans is higher than anticipated, **systemic risks could be under appreciated given the scale of exposure of insurance companies and banks**.



Source: Bloomberg as at 30/06/25



Source: Fitch as at 31/12/24

Rubrics' Positioning

Rubrics' positioning reflects conviction that defensive fixed income offers an attractive risk-reward profile. High-quality government bonds provide positive real yields, benefit from flight-to-quality during stress, and serve as the collateral backbone of global financial markets.

Stable yield with minimal downside risk is exactly what this environment requires.

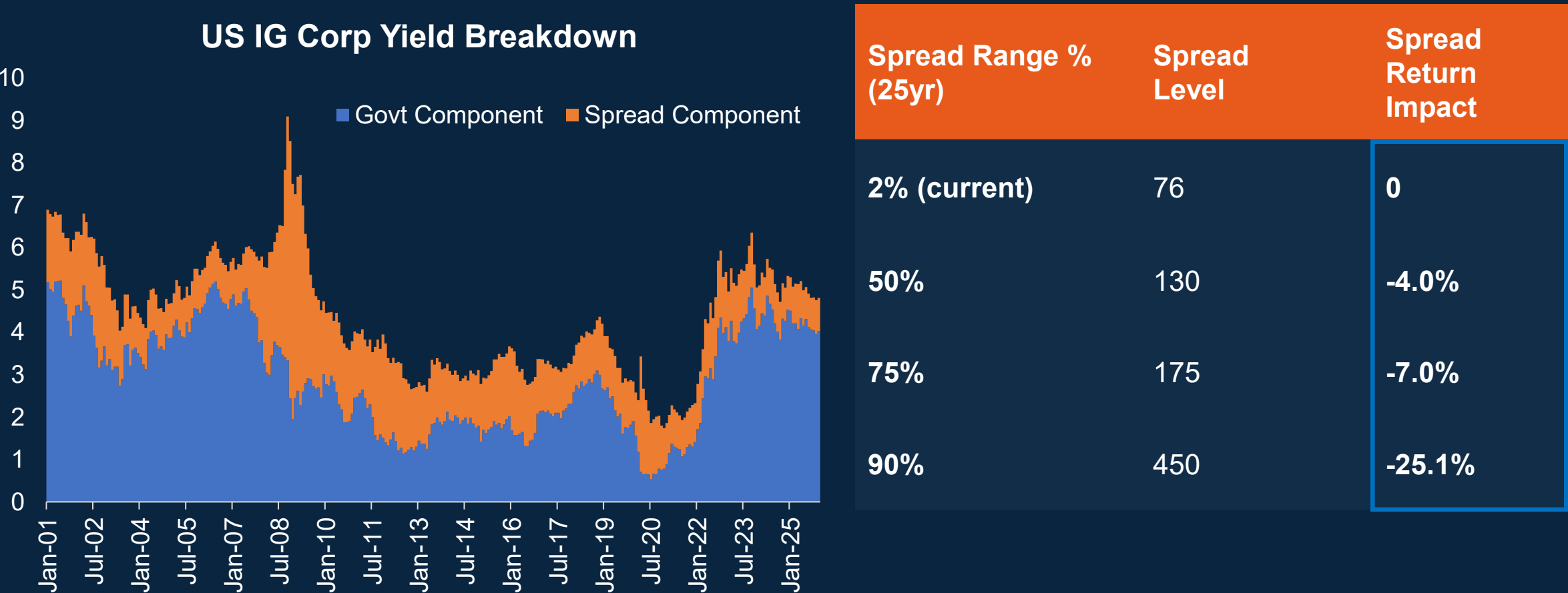
Metric	Global Fixed Income	Global Credit	Enhanced Yield
Portfolio Duration	4.34 yrs	2.15 yrs	4.26 yrs
Portfolio Yield	3.94%	4.21%	4.03%
DTS (Spread Risk)	0.48	0.85	0.25
Sovereign Allocation	90%	27%	74%
Credit Duration	0.31 yrs	1.17 yrs	0.33 yrs

While our positioning carries some opportunity cost, we believe this is limited to forgone spread carry across global credit markets—which, as noted, remains at 20-year tights. Given our broader outlook, we present below a range of hypothetical scenarios and their potential implications for credit spreads:

Scenario	Probability	IG Impact	HY Impact
Soft Landing	25%	+0-25 bps	+25-50 bps
Credit Repricing (No Recession)	40%	+50-75 bps	+150-200 bps
Recession	25%	+100-150 bps	+300-500 bps
Stagflation	10%	+75-100 bps	+200-300 bps

Given the disparity between the current pricing of credit spreads and the underlying government benchmark component **the potential downside differential between both is significant,**

A modest widening of credit spreads to the 50%-75% range for example could see a spread return in the region of -4%-7% at an index level while the tail risk associated with a material widening is far greater.



Source: Bloomberg as at 31/12/25



Important Information

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FOR SOUTH AFRICAN INVESTORS

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The prospectus and KIIDs for Switzerland can be obtained from REYL & Cie Ltd, Rue du Rhône 4, 1204 Geneva., 11, rue du Général-Dufour, CH-1204 Geneva. Swiss paying agent: Banque Cantonale de Genève, 17, quai de l'Ile, CH-1204 Geneva. Share prices at www.fundinfo.com. For the shares of the Funds distributed to non-qualified investors in and from Switzerland and for the shares of the Funds distributed to qualified investors in Switzerland, the place of performance is Geneva.