MARKET FLASH: CHINA IN SEARCH FOR A FRESH IMPETUS

- **China unveiled a bigger-than-expected stimulus programme**
- **This week's US data continued to reflect buoyant growth.**
- **In the eurozone, doubts are increasingly settling over the sustainability of growth.**

Just as more and more questions were being asked about the extent of the economic slowdown, China unveiled a bigger-than-expected stimulus programme. The news galvanised China's equity markets as well as stock markets across the globe, particularly in emerging countries. Beijing's move boosted confidence because of its sheer size: interest rate cuts, financial support for China's equity market, measures to help the property sector and fiscal relief for households and companies. For us, these new stimulus measures reflect Beijing's determination to get growth up to its targeted 5% level. In 2023, the economy grew at one of its slowest paces since 1990. But given the country's structural problems, we struggle to see how China can grow more than 5%.

Meanwhile, this week's US data continued to reflect buoyant growth: GDP was revised higher, weekly jobless claims fell and even household spending remained strong. The figures hardly point to an economy in recession. Nevertheless, we feel it is important to continue scrutinising advanced indicators as they paint a less rosy picture of the economy. In fact, judging from confidence indicators like PMIs and the IFO which are particularly worrying, the area where doubts over growth are taking root is the Eurozone. As a result, some ECB officials are sounding more dovish and canvassing for a rate cut in October. And yet, ECB chair Christine Lagarde stressed after the September meeting that the bank needed to wait to see the effects of monetary easing before making a fresh move. She added that the ECB would have little material to go on before the next ECB meeting on October 17.

As sensitivity to economic surprises is on the rise, we are sticking to our neutral rating on equities but are overweight emerging country equities. We are now overall neutral on bonds with a positive bias on carry in emerging markets and in the investment grade segment.

EUROPEAN EQUITIES

European markets ended higher this week thanks to China's bumper stimulus programme. Sectors heavily dependent on Chinese consumers were the biggest gainers. Due to expectations of a recovery in the zone, consumer discretionary was the best performing sector, followed by commodities.

Elsewhere, there were further developments in the talks between **UniCredit** and **Commerzbank**. On Monday, UniCredit announced that it had added to its stake and taken it to 21% using derivatives. However, Berlin said it opposed the tie-up and was unwilling to sell the rest of its Commerzbank stake. UniCredit's management then appeared somewhat more conciliatory and it was unclear if the bank wanted to stay with a minority stake or acquire the whole of Commerzbank.

In the video games sector, **Ubisoft** delayed the launch of the new Assassin's Creed game. Originally scheduled for the middle of November, the new version will now only come out next

February. Analysts were expecting a downward revision in guidance but Ubisoft went further and cut sales and operating margin forecasts. The stock tumbled by close to 15% on the news.

France's **Trigano**, a camping car specialist, posted reassuring figures. Sales rose by more than 10% for the year ending August 31 2024 and a dividend will be paid out. Management also said the trend was positive for 2025 and that it was confident in the future.

In spirits, the UK's **Diageo** is doing better than feared. Many investors were expecting a profits warning but none was announced. The group maintained guidance for 2025 and announced the acquisition of the **Ritual** brand in the US to reinforce its presence there.

US EQUITIES

Wall Street ended the period slightly higher, led by commodities after China unveiled a big stimulus programme. The market's upward march was bolstered by David Mericle, Chief US Economist at **Goldman Sachs** who said that after two year of post-Covid catch-up, market conditions would probably normalise rather than sink into a recession. Weekly jobless claims edged lower as if to support this idea.

The Nasdaq led gains by rising 1.33% and the S&P 500 ended 0.47% higher. The Russell 2000 slipped 0.47% due to weakness in energy, utilities and healthcare.

Tech outperformed thanks to a flurry of positive developments. **Micron Technology** jumped 17.4% after its data centre division drove fourth-quarter results in the fiscal year ending August 31. The news boosted other semiconductor and data centre stocks apart from **Super Micro Computer** which plunged 13.6% after short seller **Hindenburg Research** queried the group's accounting methods. In IT consulting, fourth-quarter results at **Accenture** also beat brokers' estimates. The group is to launch a $4bn share buyback, a token of good visibility for coming quarters. **Uber** unveiled a new partnership with **WeRide** to operate a robotaxi fleet in the United Arab Emirates. Previously, WeRide had been given the go-ahead from Beijing to seek a US listing. **Snap** formed a partnership with **Google Cloud** to improve its application's AI potential and power user engagement.

In consumer news, **Costco Wholesale**'s fourth quarter was in line. The share has gained 36.6% since January 1st and is trading at a PE of 50 times. However, the share tanked due to its performance abroad and lower than-expected membership fee income.

The Department of Justice filed an antitrust lawsuit against **Visa** (-5.9%) for exploiting its dominant, quasi-monopolistic position to undermine rival **Mastercard**. Visa said it had set $1.5bn aside to cover legal fees so we think the affair is serious.

EMERGING MARKETS

The MSCI EM index was up 5.2% this week as of Thursday's close, with most EM indices ending the period higher in USD. China soared 12.8% thanks to the government's economic stimulus package. Korea and Taiwan gained 4.6% and 4.3% while Brazil and India edged up 1.5% and 1.2%.

In **China**, August industrial profits tumbled 17.8%, or more than expected. During the week, the government's tone shifted sharply. Beijing unexpectedly announced a series of policy easing measures to stabilise the economy and help the property market, vowing to go for "all out efforts". The support package includes a 30bp cut to the key MLF policy rate, a 50bp drop in the RRR, reduced outstanding mortgage rates nationwide, RMB 500bn in swap facilities and RMB 300bn in relending facilities to underpin the stock market. President Xi chaired an urgent politburo meeting, vowing to improve consumption, boost support for the unemployed and low-income groups, ensure necessary fiscal spending, support state banks and stabilise property price expectations. Shanghai's local government is also to release RMB 500m in coupons to boost consumer spending.

In **Taiwan**, August industrial output rose by 13.4% YoY, or ahead of the 9.4% expected. Export orders rose by 9.1% YoY thanks to strong demand for AI related hardware products.

In **Korea**, the stock exchange is considering amending the "value-up index" constituents in 2024. Memory names **Hynix** and **Samsung** rallied on an upbeat outlook from **Micron** that suggested HBM supply/demand would remain tight.

In **India**, the manufacturing purchasing managers' index declined to 56.7 from 57.5 in August, while the services purchasing managers' index dropped to 58.9 from 60.9. The Ministry of Power finalised its National Electricity Plan for 2023-32, including a broad expansion of its transmission network. The Karnataka state government is considering exemptions from road tax and registration charges for electric and hybrid cars (The current rate is 13-18%). Uttar Pradesh also announced a similar plan in July. The US and India reached an agreement to work together on setting up a semiconductor manufacturing plant. The proposed factory will make infrared, gallium nitride and silicon carbide semiconductors.

In **Brazil,** port company Santos Brazil said private equity firm **Opportunity** had sold its entire 47% stake for $2.4bn, a 20% premium, to **CMA CGM**, a French shipping company.

MercadoLibre's fintech arm applied for a banking licence in **Mexico**. **Colombia** is preparing to raise tariffs on Chinese steel. **Argentina**'s economy expanded by 1.7% MoM in July under Milei, or more than the 0.6% expected.

CORPORATE DEBT

CREDIT

China's stimulus plan was headline news and gave risk assets a big boost, and particularly Asian equities. In fixed income, French inflation was announced at 1.5%, or below the 1.9% expected, providing confirmation that the fight against inflation was working and leaving the way clear for significant rate cuts. Markets are expecting a 50bp move by the end of this year and another 50bp at the beginning of 2025. Yields on the German 10-year Bund fell 8bp to 2.12%.

The mood was upbeat on credit markets and in new issuance. Investment grade spreads stayed around 113bp while high yield was around 345bp. The new Crossover series performed well with spreads tightening by 8bp to 306bp. New deals included **Intercontinental** 2031, **Apcoa** 2031, **OEG** 2029 and **Innomotics** 2031. It was another active week in financials with dollar-denominated AT1s from **Credit Agricole** and **Lloyds** and Tier 2 deals from **Sogecap**, **Raifaisen** and **Generali**.

Investment grade gained 0.35% over the week, taking YTD gains to 3.6%. Due to inflows and spreads, high yields ended the period 0.26% higher. The segment has now returned 6.6% since January 1st.

GLOSSARY

• Investment Grade: bonds rated as high quality by rating agencies.

• High Yield: corporate bonds with a higher default risk than investment grade bonds but which pay out higher coupons.

• Senior debt benefits from specific guarantees. Its repayment takes priority over other debts, known as subordinated debt.

• Debt is considered to be subordinated when its redemption depends on the earlier payment of other creditors. To offset the higher risk, subordinated Senior debt has priority over other debt instruments.

• Tier 2 / Tier 3 : subordinated debt segment.

• Duration: the average life of a bond discounted for all interest and capital flows.

• The spread is the difference between the actuarial rate of return on a bond and the rate of return on a risk-free loan with the same maturity.

• The so-called "Value" stocks are considered to be undervalued.

• EBITDA: Earnings before Interest, Taxes, Depreciation, and Amortization.

• Quantitative easing describes unorthodox monetary policy from a central bank in exceptional economic conditions.

• Stress Test: a process which simulates extreme but possible economic and financial conditions so as to assess any impact on banks and measure their resilience to these events.

• The PMI, for "Purchasing Manager's Index", is an indicator of the economic state of a sector.

• AT1s belong to a family of bank capital securities known as contingent convertibles or “Cocos”. Convertible because they can be converted from bonds to shares (or depreciated entirely) and contingent because this conversion only occurs if certain conditions are met, such as the issuing bank's capital strength falling below a predetermined trigger level.

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