EDMOND DE ROTHSCHILD

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MARKET FLASH: THE ONE BIG BEAUTIFUL BILL : AN OUTSIZED FISCAL AND BUDGETARY PACKAGE

- **A trade agreement with Vietnam has been reached, while negotiations with the EU, Japan, India, and Korea are proceeding with difficulty.**
- **So far the tariff war appears to be leaving little trace on the US economy, as illustrated by mixed labor market indicators.**
- **Both houses of Congress passed the "One Big Beautiful Bill" in an even more expansive version than its initial draft.**

Just days ahead of the July 9 negotiation deadline, the United States reached a trade agreement with Vietnam, setting a 20% tariff on Vietnamese exports (worth $137 billion in 2024) and zero tariffs on American imports (worth $13 billion). The US will also impose a 40% tariff on "transit goods" from Vietnam, implicitly targeting China. The US-UK trade agreement came into force this week, while talks with the EU, Japan, India, and South Korea are proceeding with difficulty. The EU is reviewing a proposal submitted by the US administration, which Ursula von der Leyen declined to share with member states, stating that reaching a deal by next week would be impossible. Japan—classified as a "spoiled country" by Donald Trump—has reaffirmed its reluctance to open up to agricultural imports, particularly rice, citing the need to safeguard food sovereignty.

So far the tariff war appears to be leaving little trace on the US economy, as illustrated by mixed labor market indicators. The JOLTS survey showed a rebound in job openings, reaching nearly 7.8 million. In contrast, the ADP pointed to a loss of 33,000 private-sector jobs in June, while the official employment report showed 147,000 new jobs, including 73,000 in the public sector (a 12-month high) and only 74,000 in the private sector – mainly in healthcare and education. The unemployment rate fell to 4.1%, but youth unemployment continued to rise, reaching 8.9%. The ISM Manufacturing Index remained in contraction territory for the 30th time in the past 32 months, with further deterioration in the employment component. The ISM Services Index ticked up slightly to 50.8, though its employment sub-index fell into contraction.

Both houses of Congress passed the "One Big Beautiful Bill" in an even more expansive version than its initial draft. New spending focuses on border security and defense. To encourage birth rates, every newborn American will receive a $1,000 government-funded contribution into a locked savings account accessible at age 18. Tax cuts are expected to cost $4.5 trillion over ten years, including maintaining the corporate tax rate at 21% instead of 35%, nearly doubling the standard deduction for households, and reducing the top marginal income tax rate by 2.6 percentage points to 37%. Spending cuts will amount to only $1.5 trillion over ten years targeting primarily the most vulnerable households: nearly 12

million people are expected to lose Medicaid coverage established under ObamaCare, including one-third of children under five. Eligibility criteria for Pell Grants will be tightened, limiting access to higher education for low-income students. US public debt is projected to rise by over $3 trillion in the next decade. The debt ceiling has been raised by $5 trillion, granting the Treasury additional fiscal room.

While the US successfully finalized its budget package ahead of the symbolic July 4 deadline, the UK faces a more complex fiscal equation. The government chose to yield to pressure from Labour MPs rather than support Chancellor Rachel Reeves, who is rumored to be on her way out. As a result, £6.25 billion in planned budget cuts were scrapped, reducing fiscal leeway and prompting renewed pressure on UK interest rates and the pound.

In this context, we maintain a slightly underweight stance on equities, particularly in the US, given high valuations, despite results that may come in better than consensus expectations. We also remain cautious on duration, and continue to favor corporate bonds over sovereign debt.

EUROPEAN EQUITIES

This week was marked by heightened economic and trade activity, notably progress in US negotiations with partners like Vietnam and Canada. Global growth concerns appear to be easing, thanks to US resilience, expected stimulus measures in China, and investment momentum in Europe—particularly in Germany. This optimism boosted risk appetite and supported European equity indices, which, however, returned to initial levels toward the end of the week due to lingering uncertainty surrounding EU-US trade talks, exacerbated by von der Leyen's comments on the risk of elevated tariffs.

On the corporate side, **TotalEnergies** finalized the sale of 50% of its renewable energy assets in Portugal to a Japanese consortium, at a premium valuation relative to recent benchmarks. Novartis experienced a minor setback with Cosentyx in treating giant cell arteritis, while investor focus now shifts to its upcoming trial in Sjögren's syndrome. **Pluxee** delivered strong third-quarter results, with better-than-expected growth across several regions despite FX headwinds, and confirmed its organic growth and margin improvement targets for 2024/2025 and 2025/2026. In Asia, China is making major investments in lithography and design software, posing a competitive threat to **ASML** in the DUV segment, though its EUV technology remains well protected by its unique and hard-to-replicate ecosystem. **Sodexo** slightly outperformed expectations in Q3 and now expects to reach the lower end of its full-year guidance.

In M&A, **SPIE**'s acquisition of SD Fiber will strengthen its position in fiber optic network deployment in Switzerland and Germany—a high-growth segment, especially as fiber gradually replaces legacy copper infrastructure. **Air France** increased its stake in Scandinavian Airlines from 19.9% to 60.5% by acquiring Castlelake and Lind Invest's shares, with the Danish government retaining 26.4%. **Equasens** acquired **Novaprove** to enhance its Hospilink offering in hospital software, with integration expected in Q3 2025.

US EQUITIES

The US equity markets posted record highs during a shortened trading week due to the July 4th holiday. The S&P 500 rose by 2.3%, while the Nasdaq and the Russell 2000 gained 2.2% and 3.6% respectively. The US dollar continued its downward trend against the euro, reaching 1.18.

The technology sector maintained its positive momentum, led by **Nvidia**, which rose by 2.8% over the week. However, the ongoing AI-driven rally continues to have cost-side implications. In an effort to preserve margins, companies are increasingly turning to job cuts. **Microsoft** (+0.3%) announced a new wave of 9,000 layoffs, following over 6,000 job cuts in May. **Amazon** (+2.9%) is also following this path and is reportedly approaching parity between robots and human workers in its warehouses.

In consumer discretionary, **Tesla** (-3.2%) reported another sharp decline in vehicle sales, down 13.5% year-over-year in Q2. The company continues to lose market share to its Chinese competitor **BYD**. The US-Vietnam trade deal notably benefited sportswear manufacturers such as **Nike** (+22.1%) and **Lululemon** (+7%), both of which are heavily reliant on Vietnam for production.

In consumer staples, company results remain mixed but appear to be largely anticipated by the market. **Constellation Brands**, a leading player in beer and spirits, rose 6.2% despite reporting weaker quarterly results. The decline in demand is notably coming from its core Hispanic customer base, whose spending has contracted amid growing concerns over immigration enforcement policies.

Consolidation in the construction sector continues to drive M&A activity. **Home Depot** (+2.3%) announced the acquisition of building materials distributor **GMS** for $5.5 billion.

US health insurers saw sharp losses this week (-7%), dragged down by **Centene** (-38%), which suspended its full-year earnings guidance. The company, which focuses on health coverage for low-income individuals, reported further deterioration in its operating environment. Centene expects a slowdown in membership growth as more patients opt out of coverage due to the discontinuation of certain subsidies. At the same time, its existing contracts are becoming less profitable, as policyholders—who are on average in increasingly fragile health—make more frequent and costly claims.

Finally, all major sectors posted gains this week, including energy (+1.6%), financials (+2.8%), and materials (+3.8%).

EMERGING MARKETS

MSCI EM index was up by 0.87% this week as of Thursday in dollar terms. Brazil, Korea, Taiwan and Mexico advanced 4.29%, 2.06% 2.00% and 1.80% respectively. China and India corrected 0.78% and 0.66%

In **China**, official Manufacturing PMI for June was 49.7 vs 49.5 in the previous reading and Non-Manufacturing PMI was 50.5 improved from 50.3 last month. Caixin Manufacturing PMI, more SME and export focused, was 50.4 also ahead of 49.3 expected. The authorities exempts major EU brandy makers from anti-dumping duty. US companies received approvals to resume exports to China for products including software, ethane, and aircraft engines. Following President Xi's comments, the MIIT organized meeting on managing the disorderly competition and price wars. The government is planning to offer cash handouts for each child under 3 years' old. Macau Gaming GGR (gross gaming revenue) surged 19% YoY in June, well ahead of the expectations of 9% increase. **CATL** officially kicked off work on $7.5bn nickel and integrated EV battery project in Indonesia. **Alibaba** offering $7bn of subsidies for food deliveries and online retail to boost its instant commerce business as competition heats up. It proposed issuance of HK $12bn exchangeable bond.

In **Taiwan**, **TSMC** handed out its largest employee bonus in history, with an average payout of over US$69,000, an increase of 34% from last year.

In **Korea**, export for the month of June grew 4.3% YoY below expectations of 5.1% YoY. Amendment to the Commercial Code, passed the Legislation and Judiciary Committee, which may benefit minority shareholders.

In **India**, manufacturing PMI for June was 58.4 vs. 57.6 in May, as new export orders, particularly from the US, increased at their fastest pace in nearly 18-years. Service PMI also continued strong at 60.4 in June vs 60.7 in MayMay total loan growth decelerated to 8.5% YoY from 9.8% YoY in April. Renewable power generation saw its fastest growth since 2022 in the first half of 2025, increasing by 24.4% to 134 billion kWh. **Apollo Hospitals** announced its restructuring strategy to spin off its omni-channel pharmacy and digital healthcare businesses. **DMart** reported revenue growth of 16% YoY for Q1FY26 vs expectation of 17%, and the pace of store expansion increased to +9 vs +6 in Q1FY25. SEBI passes interim order against **Jane Street**, baring them from accessing the local securities market.

In **Brazil**, Inflation reduced 1.67% MoM in June better than expectations of -1.00%. For May reported a nominal budget deficit of BRL 125.9 bn, was ahead of market forecasts of a BRL 116 bn.

In **Mexico**, Gross fixed investment for April declined 12.5% YoY vs expectations of -9.1% YoY. Bank credit growth decelerated by 70bp to 7.3% in real terms, but grew 0.6% sequentially. US proposal to tax remittances sent from that country was lowered to 1% and will only apply to cash and not electronic transfer

CORPORATE DEBT

CREDIT

The credit market remained remarkably resilient, posting solid weekly performance: +0.4% for Euro Investment Grade, +0.3% for Euro High Yield, +0.4% for Euro Corporate Hybrids, and +0.6% for Euro CoCos. Continued strong inflows supported absorption of heavy primary issuance volumes in early July. Markets responded positively to strong U.S. nonfarm payrolls data, with tighter spreads and increased short-covering. The iTraxx Crossover Index tightened from 284 to 278 basis points by Thursday's close. Employment figures led investors to adjust expectations regarding Fed policy, reducing the likelihood of a July rate cut. Markets now price in a 70% probability of a rate cut in September, which drove short-term yields up by 10 basis points. European rates remained broadly stable throughout the week.

European issuers continue to take advantage of a final issuance window before the summer lull and Q2 earnings season. The European high-yield market saw over ten transactions this week. Notably, **SoftBank** raised €/$4 billion in a multi-tranche euro and dollar deal to fund its ambitious AI investment plans. The order book was over three times oversubscribed, reflecting strong market appetite. In hybrid debt, Austria's **Lenzing AG** completed a notable issuance. In the financials space, **SOGECAP** issued an RT1 bond with a 6.25% coupon.

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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EDMOND DE ROTHSCHILD ASSET MANAGEMENT (FRANCE)

47, rue du Faubourg Saint-Honoré 75401 Paris Cedex 08

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332.652.536 R.C.S. Paris