



## EDMOND DE ROTHSCHILD ASSET MANAGEMENT

### MARKET FLASH: PALPABLE AGITATION HITS MARKETS

- The end of the US shutdown failed to instil fresh optimism on financial markets.
- However, European equities are so far proving more resilient.
- We remain neutral on duration and cautious on equities, in particular in the US.

The end of the shutdown was eagerly awaited but it failed to instil fresh optimism on financial markets. Instead, sentiment was dominated by worries the AI bubble might burst and doubts over the Fed's willingness to make another rate cut in December. And yet the week got off to a good start after a group of Democrat senators joined Republicans to vote to end the longest US shutdown in history. The shutdown's economic cost will no doubt be considerable. Estimates suggest growth was reduced by 1% over this quarter. However, the release of economic data will need to resume to measure the precise impact and that could take some time. Some labour market data for October might never see the light of day according to the Trump administration, leaving the Fed in the dark and divisions among its governors in the open. With no hard and fast data on any worsening in the labour market, the most hawkish governors have been the most vocal, highlighting inflationary pressure and their unease over another rate cut. Investors have heard the message. Anticipations have been reduced and the probability of another rate cut in December is now only 49.5%. The adjustment has put pressure on government bond yields with 10-year Treasuries now around 4.13% but it has also weighed on risk appetite. Equity markets fell back sharply at the end of the week and the Russell 2000 index underperformed significantly. The Nasdaq also tumbled but largely due to AI worries. Investors are increasingly questioning the logic behind massive investments by mega tech groups to build data centres and develop computing capacity. These worries are being amplified by companies turning more and more to leverage, either through public or private debt markets. In addition, elevated valuations for certain stocks leave little room for disappointment.

European markets in contrast have proved more resilient: the earnings season has been encouraging, company confidence indicators are trending higher and France's political situation is seen as less worrying. The 10-year Bund-OAT spread is now down to 73bp despite France's National Assembly voting to suspend pension reform. For the moment, investors are relieved to see budget discussions are continuing and they seem not to be bothered by the prospect of the deficit coming in at 5% in 2026 due to ongoing concessions. Another country in the thick of intense budget discussions is the United Kingdom where Gilt yields shot up at the end of the week after Chancellor Rachel Reeves abandoned plans to increase income tax. Note that in Germany, the expert economic panel advising Friedrich Merz said that because it would take longer to roll out fiscal stimulus it had cut growth estimates for 2026 to 0.9%, or less than the government's forecast of 1.3%.

We remain neutral on duration and continue to prefer emerging country debt and investment grade bonds. We are still cautious on equities, in particular in the US.

## EUROPEAN EQUITIES

In volatile trading, positive catalysts initially sent indices higher thanks to upbeat results. With 70% of company reports now in, 54% have beaten expectations. At the same time, French political risk abated after the finance minister said he was increasingly confident the government would get its budget approved by parliament. But the end of the period saw investors turn more cautious as the good news dried up and questions arose over the extent and efficiency of Germany's budgetary stimulus plans.

Sector switches reflected these doubts and investors generally ignored upbeat results. Even so, some themes are still promising. The luxury sector, for example, is recovering and **LVMH** plans to open several large stores in China thanks to incipient indications of a recovery in sales there. And **Burberry's** results came in better than expected. In good news for the defence sector, Berlin wants to buy 20 combat helicopters from **Airbus** with delivery scheduled for 2027. **Alstom's** upbeat results and strong trading momentum augur well for a return to positive cash flow in the second half. Germany's **Infineon** (semiconductors) boosted its sales guidance for 2026. The group expects to see strong demand for its AI chips. Results at **KBC** beat expectations and consensus estimates from analysts are expected to rise.

## US EQUITIES

Market performance varied this week. The S&P 500 edged 0.13 % higher and the Nasdaq shed 0.26%. The end of the longest US shutdown in history - 43 days- could have provided lasting support for markets. The Dow hit a new record above 48,000 when the budget agreement was announced but mounting worries over AI stock valuations and gradual drop in Fed Funds anticipations eclipsed the good news. The probability of another Fed cut in December is now only 50%. Markets are still operating in an unprecedented economic data void. October's inflation and labour market data might never be released in their usual format so the Fed increasingly looks befogged. Meanwhile, the White House is under pressure after fresh revelations on the Epstein affair. And in January the Supreme Court will examine Donald Trump's appeal in his attempt to sack Fed governor Lisa Cook, an episode which is fuelling the debate over the Fed's independence.

AI once again dominated trading but not with the same results. **AMD** (+6.2%) expects to see annual growth exceed 35 % over 3-5 years thanks to an 80% increase in sales of its AI chips. **Microsoft** (+1.3%), **Google**, **Meta** (-1.9 %), **Amazon** (-2.8%) and several other specialists provided details on their massive data centre investments. **Anthropic**, for example, is to invest 50 \$bn in IT and data centre infrastructure in the US. But sentiment soured after **SoftBank** sold stock amounting to \$5.8bn in **Nvidia** (-0.7%), **CoreWeave** (-24.7%) reduced guidance due to logistical constraints and **Palantir** executives warned on the risk of unprofitable AI investments. Tech giants- Nvidia, Tesla (-6.4%), Alphabet and several semiconductor plays- sold off and investors switched to more defensive sectors. Healthcare was the biggest beneficiary thanks to attractive valuations. **Pfizer** (+5.6%) concluded its acquisition of **Metsera**, for an amount that could reach \$10bn, and is mulling the sale of its remaining stake in BioNTech. Cyclical were more mixed. **FedEx** (+2%) raised guidance despite soft sales. **Boeing** remained under pressure after its cargo planes were grounded. In consumption/services, **Walt Disney** (-2.8%) beat expectations but still disappointed investors. The dollar edged lower while the gold ounce rose 4% and silver ended the period 9% better.

## EMERGING MARKETS

The MSCI EM index was up 2.05% in USD this week as of Thursday. Korea, China, Brazil, India and Taiwan gained 5.02%, 2.84%, 2.70%, 1.33% and 0.17%, respectively. Mexico slipped 0.23%

In **China**, October CPI rose 0.2% YoY, or better than the 0.1% decline expected. Half of the improvement was due to gold. Credit growth hit a year-low in October, with aggregate financing rising by RMB 815bn, or below forecasts. October retail sales rose 2.9% YoY, or slightly better than the 2.8% rise expected. October industrial production rose 4.9% YoY, or below the 5.5% expected. US soybean purchases stalled after last month's spike, raising doubts about meeting expectations set by President Trump's administration. In an aim to curb cheap Chinese imports, EU states agreed to end duty exemption on low-value orders under €150 from retailers like **Temu** and **Shein**. **Tencent** reported strong results ahead of expectations, with revenue and net profit growing 15% and 18% YoY, respectively. **Tencent music** had solid execution with monthly APRU up 10% YoY and net profit up more than 30%. **Bilibili's** results were also ahead of expectations, with healthy margin expansion on solid advertising and operating leverage.

In **Taiwan**, **Foxconn** reported a beat as AI-related revenue continued to climb and management is upbeat on business growth and AI momentum. **TSMC** posted its slowest monthly revenue growth in more than a year, with a 16.9% rise in sales for October

In **Korea**, exports for the first 10 days of November rose 6.4% YoY while imports were up 8.2%. Beijing decided to suspend sanctions on the US-linked subsidiaries of South Korea's Hanwha Ocean Co Ltd for a year

In **India**, Headline CPI slowed further to 0.3% YoY, an all-time low, vs. 1.4% in September, partly because of the base effect and impact of GST rationalisation. **DHL** Group announced it would invest around €1bn in India by 2030 as the country continues to take an increasing role in international supply chains. **Maruti Suzuki**, **Hyundai**, and **Tata Motors** are significantly boosting production by 20-40% to meet surging demand post-GST cuts. Eicher motors reported a topline beat on buoyant demand with management expecting continued strength in demand. **Tata Steel** reported a quarter with lower realisations offset by lower costs. Amber results were sharply below estimates on weakness across both durables and electronics.

In **Brazil**, October CPI rose 4.68% YoY, or slightly below expectations. September retail sales rose 0.8% YoY, or below the 2% expected. **Nubank** beat high expectations on lower credit cost while **Banco do Brasil** continued to disappoint due to idiosyncratic factors.

In **Mexico**, October inflation was 3.57% YoY, or in line with expectations. September industrial production contracted by 2.4% YoY, again in line with estimates. **Estée Lauder** announced a minority investment in Mexican fragrance brand **XINÚ**. The government raised tariffs to as much as 210% on sugar imports to protect the home industry.

In **Peru**, **Credicorp** reported solid results, with increasing profitability.

In **Chile**, all eyes are on the first round of presidential elections on Sunday.

## CORPORATE DEBT

Markets started the week on the front foot after the longest-ever US shutdown came to an end and spreads tightened sharply. But sometimes you cannot see the wood for the trees and markets quickly turned to economic data that had previously been blocked by the shutdown. The overriding sentiment was that the figures might work against another Fed cut in December. The Xover eventually ended the period 5bp narrower but had tightened by 15bp

earlier in the week. Both euro and dollar government bonds widened by 3-4bp. Investment grade ended the week flat as of Thursday evening. Riskier assets had benefited from tighter spreads at the beginning of the week so Euro CoCos gained 0.15% and Corporate High Yield 0.12%. Holland's **ABN Amro** paid €950m for **NIBC**, another Dutch bank. And following its acquisition of **Sondrio**, Italy's **BPER** raised €750m with an AT1 at 5.875%

In corporate deals, **Repsol** raised €750m with a hybrid bond at 4.179%. The sterling HY market cashed in on good momentum a fortnight before the UK's budget presentation with 2 deals. **Gatwick airport** raised £475m at 6% and leisure company **David Lloyd** £850m at 7%.

## **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.
- CTA: quantitative strategy which uses futures to invest in a wide range of financial assets, including equity indices, short-term and long-term interest rates, currencies, and commodities.
- 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.
- RT1s: perpetual bond issues with early redemption possible after 10 years. Coupon payments are discretionary and non-cumulative.

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