



EDMOND DE ROTHSCHILD ASSET MANAGEMENT

MARKET FLASH: THE UKRAINE-RUSSIA TALKS GIVE MARKETS A LITTLE OPTIMISM

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- **In the UK, the government unveiled significant tax increases which will raise its budget leeway from £9.9 to 21.7bn by 2029.**
- **With markets now factoring in rate cuts at future FOMC dates, we remain cautious on the dollar. We are also sticking with a slightly positive bias on fixed income with a preference for emerging country debt and investment grade credit.**

Peace talks between Ukraine and Russia are proving difficult but they offer markets a little optimism. Moscow rejected Europe's proposal but said the agreement between Kiev and Washington could provide a basis for continuing to talk.

US economic data was mixed this week. September retail sales slowed to +0.2% in value and volume, down from +0.6% and +0.2% previously. And the Conference Board's consumer confidence index fell from 94.6 in October to 88.7 in November. On the other hand, producer prices rose by an annualised 2.7% and by 2.9% excluding energy, food and distribution compared to 2.6% and 2.8% previously. The Beige Book showcased both resilient American growth, with the Atlanta Fed forecasting 4% in annualised GDP growth in the fourth quarter of this year, and a stagnant labour market driven by replacements and AI productivity effects (excluding sectors suffering from the immigration clamp-down). With rate cut expectations increasing, the market chose to focus on worsening labour market fears as highlighted by Fed members Christopher Waller and Mary Daly: the impact of job cuts in tax administration has not yet shown up in the statistics but has been estimated at 249,000 by the Trump administration's human resources department.

In the UK, the government unveiled significant tax increases which will raise its budget leeway from £9.9 to 21.7bn by 2029. Plans to cut social spending were abandoned but markets were still reassured as the measures should allow the Bank of England to make further rate cuts.

In Europe, new consumer loans rebounded by an annualised 2.8% while borrowing by companies was stable at +2.9%. The figures show that current rates are providing support and the ECB's minutes reflect the bank's wait-and-see stance. Rates are high enough to manage any shocks and inflation is not weak enough to suggest action. Only prolonged and significant slippage could cause this approach to change. The ECB also warned that Dutch pension reform risked boosting sales of long-dated bonds.

With markets now factoring in rate cuts at future FOMC dates, we remain cautious on the dollar. We are also sticking with a slightly positive bias on fixed income with a preference for emerging country debt and investment grade credit and a less defensive stance on equities.

EUROPEAN EQUITIES

Fresh hopes for a Fed rate cut in December and improved chances of peace in Ukraine triggered a rebound. Cyclical gains and stocks which could benefit from a ceasefire in Ukraine also moved higher. Defence stocks fell back. The latest ECB minutes show that the bank thinks current interest rates are high enough but committee members are open to changing this view should economic data require it. In the UK, the Chancellor of the Exchequer presented her keenly-awaited budget. Its budgetary leeway is greater than expected but consolidation has been put back beyond 2028. However, the government's efforts to win back some credibility with bond markets came at the expense of higher taxes.

In company news, **Deutsche Börse** said it was in exclusive talks to acquire **Allfunds'** European distribution platform, reviving a deal that **Euronext** had failed to clinch. **Rémy Cointreau** gained ground after management said it was confident the group would return to growth in 2026. In another sign of the difficulties affecting European chemicals, **Wacker Chemie** said it would be laying off 1,500 people. The group said more expensive energy and Germany's slow administration were hitting the sector's international competitiveness. The European Space Agency's new budget is the largest in three years so order books at **Airbus**, **Thales** and **Leonardo** should benefit.

US EQUITIES

Wall Street bounced sharply in a shorter Thanksgiving holiday week with the S&P 500 and Nasdaq 100 jumping 4.19% and 4.92%. The move was primarily driven by increasing expectations for a December rate cut following upbeat comments from some Fed governors. Meanwhile, the macroeconomic picture remained hazy after the 43-day shutdown. Data are coming in late and feel out of date. Weekly jobless claims fell to a seven-month low while confidence indicators came in at lows not seen in decades. The situation is fuelling debate within the Fed between the risk of persistent inflation and worries that the labour market could suffer a strong downturn.

The AI trade returned in force but leadership but with greater dissemination. **Alphabet** (+10.5%) was one of the rare *Magnificent 7* stocks to keep rising thanks to enthusiasm over its Gemini 3 model and its TPU chips. As a result, **Nvidia's** dominating position came into question. The stock slipped 0.2% over the period despite management's insistence that its chips were a "generation ahead" of the competition. Elsewhere, **OpenAI** sounded a very ambitious note: despite today's heavy losses, the company is targeting around 220 million paying subscribers to its ChatGPT by 2030, up from 35 million today. With the help of a banking consortium, it is also preparing funding of \$38bn in favour of **Oracle** (-2.7%) and **Vantage** (+5%) to build new infrastructure, all this amid the market's mounting worries over Oracle's gearing and cash flow.

Over the week, cyclical and consumer plays rallied. Turnaround retailers (**Kohl's**, **Abercrombie & Fitch**, **Urban Outfitters**, **Ross**) as well as **Best Buy** (+9.7%) rose on earnings beats, improving margins and reassuring comments ahead of Christmas. Airlines gained on a surge in Thanksgiving travel. House builders rebounded on hopes that mortgage rates would fall if the Fed cuts rates. Wall Street cheered reform proposals from the Fed's Michelle Bowman that could unlock up to \$2.6 trillion in lending capacity by easing bank capital requirements. In healthcare, **Eli Lilly** (+5.9%) became the first pharmaceutical company to

move above \$1 trillion in market cap and several healthcare insurance companies (**Centene**, **Oscar Health**) soared on hopes Obamacare subsidies might be extended.

EMERGING MARKETS

The MSCI EM index was up by 2.73% in USD this week as of Thursday with all major emerging markets closing higher. Korea, Taiwan, Brazil, China, Mexico and India advanced by 5.05%, 4.54%, 4.18%, 2.47%, 2.15% and 0.91%, respectively.

Donald Trump agreed to visit Beijing in April and invited Xi Jinping for a state visit in 2026 following a call, during which the 2 leaders discussed trade, Ukraine, fentanyl and Taiwan, emphasising strong US-China relations.

China's October industrial profit growth was down by 5.5% year-on-year. November NEV sales are estimated to reach 60% penetration for the first time. **Meituan** reported its first quarterly loss in nearly 3 years as Quick Commerce competition pressure persisted. **Tencent** bought back shares worth HK\$635.6m. **Alibaba's** results beat market expectations with cloud business revenue further accelerating to 34% as AI demand continued to exceed supply by far.

Taiwan raised its 2025 GDP growth forecast to 7.37% from 4.45% on strong semiconductor exports while the 2026 GDP growth forecast was also revised up to 3.54% from 2.81%. **Foxconn** reportedly committed \$569m to its Wisconsin operations and partnered with **OpenAI** to design data center hardware. **ASE Technology** approved a NT\$4.23 billion investment in a new Taiwan plant to meet AI chip packaging demand.

In **Korea**, the BOK held its policy rate unchanged at 2.50%, matching market expectations. Industrial production for October fell 8.1%, or more than the 0.6% drop expected. Ruling and opposition parties agreed on Friday to lower income tax on dividend payouts to a maximum of 30%, or lower than the government's proposal of 35%. **Naver** announced plans to merge with fintech firm **Dunamu** to focus on global expansion.

In **India**, third-quarter GDP was up 8.2% YoY, or ahead of expectations of 7.4%. The government implemented 4 new labour codes replacing previous legislation and aiming to make doing business in India easier and attract more investors. Canada and India agreed to launch negotiations on a new Comprehensive Economic Partnership Agreement. **Siemens Energy India** reported a strong quarter backed by power equipment demand.

In **Brazil**, IPCA-15 inflation rose 4.50% year-over-year in November, or slightly above the 4.48% forecast, marking the first time since January that inflation had returned to the central bank's target range. The US decided to withdraw 40% tariffs on several agricultural products including coffee and beef to tame inflation. DP World announced a \$300m investment plan for a port in Santos. **Viridis Mining** secured eligibility for \$30m from a strategic minerals fund for its rare earths project

In **Mexico**, bi-weekly inflation for the first half of November accelerated to 3.61% year-over-year, or in line with expectations. September retail sales rose 3.3%, or ahead of expectations of 2.2%. Mining projects worth over \$11bn are moving forward following the release of environmental and water permits.

In **Argentina**, the Ministry of Economy promoted the bidding process for the sale of shares in **Nucleoelectrica SA**. **Galicia Bank** reported weak third-quarter numbers on higher expenses and weaker asset quality. Management said NIM should recover in this quarter and that NPLs and cost of risk should peak in the first quarter of 2026 with ROE recovering to 15% by the end of next year.

CORPORATE DEBT

In a week of reduced liquidity because of the Thanksgiving holiday in the US, equity market volatility dropped sharply and risk assets rebounded on the increased probability of a rate cut when the Fed next meets on December 10. The prospect of a resolution to the Ukraine-Russia conflict also lifted sentiment. With confidence in the Fed still intact, the way is now clear for equity markets to push higher with AI plays leading the rally.

In the UK, the Chancellor of the Exchequer Rachel Reeves presented a budget with an ambitious trajectory for the government deficit which sent a reassuring message to investors. She hopes the deficit will fall to 1.9% of GDP by 2031. For the Bank of England, this is another reason to continue with monetary easing, a trend that will help government bond yields to fall. Credit markets made positive returns this week as risk premiums narrowed and government bond yields eased. Euro investment grade returned 0.2%, Euro Hybrids 0.3% and Euro high yield and CoCos both gained 0.4%.

New issuance slowed as usual towards the end of a year but deals still met with investor approval. For its first ever issue, **Canal Plus** raised €700m at 4.625% due 2030. The proceeds will fund its acquisition of South Africa's **MultiChoice** pay channel. In financials, **Deutsche Bank** raised €1bn with an AT1 at 6.75%. The order book topped €7bn.

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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