



## MARKET FLASH: A HIGH-TENSION START TO THE QUARTER

- Tensions in the Middle East have led to a surge in oil prices.
- Jerome Powell confirmed that the Fed plans two rate cuts by the end of the year.
- The eurozone is under pressure due to warnings in the automotive sector and announcements of tax increases in France and Italy.

The fourth quarter kicked off on a more volatile note as geopolitical risk resurfaced. On Tuesday, Iran reacted to the death of Hezbollah's chief in Beirut with a missile attack on Israel and risk assets fell. Concerns over a possible Israeli riposte against Iran sent oil prices surging by close to 10% even if Saudi Arabia is threatening to increase production to protect its market share.

In the US, Fed chair Jerome Powell confirmed that the plan was to make two 25bp cuts before the end of this year. Only very negative surprises, on jobs essentially, would affect this scenario. Jobs data is therefore being scrutinised by investors and this week threw up conflicting indications. PMI and ISM data showed falls in job data and low levels in absolute terms but new openings (JOLTS) rebounded in August and weekly jobless claims in the last week of September were more or less stable with long term unemployed numbers edging lower.

More generally, Services ISM rebounded sharply compared to other categories, and especially in new orders.

Eurozone equity markets were hit hard by profit warnings from auto groups and news of tax rises in France and Italy.

As for ECB rate cut expectations, investors now expect a move in October as well as in December. This follows signs that disinflation is continuing: eurozone inflation for the 12 months to September moved below 2% to 1.8%. However, underlying inflation stayed over 2.7%.

At the same time, advanced PMI indicators fell sharply, indicating an economic slowdown in Germany and France in particular. Spain is a notable exception

Only Chinese equities rose over the week as sentiment remained buoyed by a stimulus programme which is expected to be rolled out after the Golden Week ends.

Given the circumstances, we are still neutral on risk assets and duration. We have a preference for UK and emerging market equities. Government bonds acted as a safe haven at the beginning of the week as geopolitical risk intensified but yields then started rising again on rather upbeat US data.

### EUROPEAN EQUITIES

Mounting tension in the Middle East hit oil markets and sent Brent Crude more than \$5 higher in only a few days. The price surge left energy as best performing sector in Europe, the only sector in fact to end the period higher. Investor confidence in energy stocks was reinforced while other sectors struggled.

Consumer discretionary, for example, fell sharply. After a buoyant week riding on Beijing's stimulus programme, the sector was dragged down by auto industry warnings. Over the weekend of September 28/29, major players like **Stellantis** and **Volkswagen** announced that they would miss annual targets due to weaker-than-expected markets in Europe and the US. **Aston Martin** also cut guidance, citing challenges on the Chinese market. With the notable exception of **Renault** and **Ferrari**, almost all Europe's auto makers have cut forecasts.

Meanwhile, **TotalEnergies** confirmed that it was looking to be listed on Wall Street. The aim is to boost the group's valuation to match US peers. The group will keep its head office in France and Paris will still be its main listing.

In telecoms, **Bouygues** unveiled a new cut-price multi-line offer designed to appeal to French households. The move was prompted by a rival offer from **Free**. The intense price war is already having financial consequences with Bouygues cutting its outlook for 2026. The news weighed on the share price.

Elsewhere, French construction and property development group **Kaufman** posted strong figures with profitability holding up and an 8% rise in reservations despite a difficult trading environment.

## US EQUITIES

Wall Street lost ground mainly due to rising Middle East tension. Market worries were reflected in increasing volatility. The S&P 500 limited the drop but still fell 1%, similar to the Nasdaq, while the Russell 2000 fell by 3%.

Developments in the Middle East sent Brent Crude surging to almost \$80. Investors are now waiting to see if Israel decides on a riposte after Iran's missile attack at the beginning of the week. The concerns stopped the energy sector's decline and it ended the week higher. Note however, the significant performance dispersion so far this year between oil majors like **Exxon**, which has jumped more than 20%, and oil services plays like **SLB** which is down by more than 15%.

Indices fell overall but the services sector is proving resilient judging from the ISM's Services PMI which came in at 54.9, or better than the 51.7 expected. The figures augur well for retail sales during the Christmas season and **Amazon** is hiring thousands of temporary staff. Already last month, **Target** took on 100,000 temporary employees. **UPS** and **Fedex** declined due to a dockers' strike on the east coast.

In tech, **Microsoft** invested \$750m in **Open AI**'s latest fundraising. The group raised a total of \$6.6bn and is now valued at \$157bn (debt included). **Nvidia** rallied after its CEO Jensen Huang said there was strong demand for its Blackwell chips. **Tesla**'s much awaited conference will take place on October 10. The group is expected to showcase developments in its autonomous driving division. **Uber** unveiled yet another partnership, this time with **Avride** for robotaxi and robot delivery services. Uber's strategy of developing partnerships seems to be motivated by a desire to ward off competition should Tesla and **Waymo (Alphabet)** launch similar services.

Nuclear energy stocks received a boost after **Alphabet**'s CEO said in a Nikkei newspaper interview that the group was thinking about buying electricity from nuclear power stations for its data centres.

In a thin week for results, **Levi Strauss** tumbled 7.7 % after the group said its **Dockers** brand was weighing on overall performance and might now be up for sale.

## EMERGING MARKETS

The MSCI EM index was flat this week as of Thursday, with most markets down in USD. China (+8.7%) continued to rally with the mainland A share market closed during the week for the National Day holidays. Korea, India, and Taiwan were down by 5.5%, 3.7%, and 3%, respectively while Brazil and Mexico ended 2.2% and 1.3% lower.

In China, official Manufacturing PMI for September was 49.8 vs. market consensus of 49.4 and 49.1 in August. Non-Manufacturing PMI was 50.0, or below the 50.5 expected. Four first-tier cities, Guangzhou, Shanghai, Shenzhen and Beijing, announced further plans to ease home purchase restrictions before the Golden Week. Preliminary travel data for the holidays so far points to a sustained recovery: Chinese trips to Macau are running after three days at +29% YOY and 106% of 2019 levels, or better than market expectation. The National Immigration Administration estimates average daily cross-border volume will reach 1.75m person times during the Golden Week, up 18.5% YoY and slightly above pre-covid levels. In company news, **Nio** secured a new refinancing round from three state-owned strategic investors. Major EV makers' orders and delivery momentum remained strong in September: **Li Auto**: 53,709 deliveries, +49% YoY and +12% MoM, **Nio**: 21,181 deliveries, +35% YoY and +5% MoM; while **BYD** reached a new record for sales at 417,603, +46% YoY and +14% MoM. **Alibaba** repurchased 414 million ordinary shares in the third quarter resulting in a 2.1% net reduction in outstanding shares.

In India, the HSBC Services PMI came in at 57.7 in September vs. 60.9 prior, or weaker than expected. Banking sector loans rose 14% in August (as expected, moderating from 15-16% levels of F24). The Naukri JobSpeak Index, India's leading indicator of white-collar hiring, reached 2,727 points in September 2024, marking a robust 6% year-on-year increase. This positive trend was largely driven by a resurgent IT sector, which demonstrated impressive 18% YoY growth in hiring. **Avenue Supermarts** said revenue growth moderated to 14% in the second quarter of FY25, down from 18% in the first quarter and lower than market consensus estimation.

In **Brazil**, Moody's upgraded Brazil's credit score.

In **Mexico**, Claudia Sheinbaum took office as President. In her first speech, she announced her 100 commitments for the 2024-2030 period, sounding a more conciliatory tone but providing no relevant details on judiciary reform implementation

## CORPORATE DEBT

### CREDIT

Credit markets were particularly resilient amid mounting tension in the Middle East and rising equity volatility. Euro investment grade returned 0.29% over the period and euro high yield 0.14%.

Rate cut expectations and persistently attractive yields continued to drive strong fixed income inflows. **JP Morgan** noted that European corporate bond markets had taken in more than €2bn over the week. IG is yielding around 3.2% and high yield 5.5%.

Companies are still seizing attractive conditions to refinance debt falling due in 2025/26. AccorInvest (B+) raised €750m at 6.375% due 2029 to refinance Covid-period debt. The issue traded more than 3% higher on the secondary market. **Belron (Carglass)** raised €850m at 4.625% due 2029; the BB issue was more than four times oversubscribed.

In company news, auto industry profit warnings continued. After **Volkswagen** and **Stellantis**, it was the turn of Germany's **ZF Friedrichshafen**. The equipment supplier intends to lay off 14,000 people. We remain defensive on the sector.

In contrast, cruise company **Carnival** beat expectations and raised guidance for 2024 as a whole.

## **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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