



## EDMOND DE ROTHSCHILD ASSET MANAGEMENT

### MARKET FLASH: BETWEEN GEOPOLITICAL CLAIMS AND MACROECONOMIC BALANCES

- The Trump-Putin meeting did not result in a ceasefire, but it did initiate key discussions on Ukraine, followed by a meeting in Washington on security guarantees.
- With job creation slowing and inflation picking up in the US, uncertainty surrounds US monetary policy, and J. Powell's statements in Jackson Hole are eagerly awaited.
- The European economy is proving resilient with a rising PMI index, despite higher-than-expected UK inflation.

Although there was no ceasefire agreed when Donald Trump met Vladimir Putin in Alaska, some important discussions took place. Putin put forward his demands: Russia to annex Donetsk and Luhansk, in exchange for existing front lines to stay as they are, and security guarantees. The Alaskan summit was followed in Washington by a meeting between Donald Trump, European leaders and Volodymyr Zelensky. They agreed to arrange security guarantees for Ukraine within 10 days as part of a peace agreement. Even if Ukraine will not be admitted to NATO, the country is planning to buy \$100bn in US arms with Europe providing the funding. A Putin-Zelensky meeting is also being discussed.

As for US monetary policy, job creations have been revised sharply lower since the Fed last met and inflation has revived so FOMC will find it more complicated to manage its dual mandate, full employment and price stability. This means Jerome Powell's Jackson Hole speech will be very closely watched, especially as recent comments from Fed governors revealed a wide range of opinions on future strategy.

Meanwhile, Europe's economy is showing some resilience. The composite PMI rose from 50.9 in July to 51.1. Manufacturing moved into expansionary territory, rising from 49.8 in July to 50.5 while services slipped from 51 to 50.7. In the UK, however, manufacturing continued lower, falling from 48 in July to 47.3 but services came in at 53.6, or higher than the 51.8 expected. The composite index rose from 51.5 in July to 53. The problem is that inflation is up more than expected, rising to 3.8% in July after 3.6% in June, and services saw big rises.

In Asia, China's retail sales growth slowed to 3.7% from 4.8% and industrial production growth to 5.7% from 6.8%. In Japan, overall inflation slowed from 3.3% to 3.1% but still remained above the Bank of Japan's target. Underlying inflation was unchanged at 3.4%.

Due to persistent uncertainty, most stock market indices ended lower. Tech giants in the US saw profit taking this week ahead of Nvidia's results on August 27. European indices managed to make slight gains. Energy prices rose in the absence of US sanctions against Russian oil and gas.

Given the fact that economic indicators are worsening, our portfolios are still underweight equities, and especially in the US. We remain neutral on duration as Fed members are not

**in agreement over future moves, and we prefer corporate bonds. We continue to be negative on the US dollar.**

## EUROPEAN EQUITIES

Markets were in wait-and see mode all week as investors viewed economic and geopolitical challenges with a degree of caution. Discussions between US and Russian delegations advanced. And talks between European leaders and the White House led to an agreement to formulate security guarantees for Ukraine. Hopes for a peace deal underpinned outperformance from European indices over the week despite defence stocks falling back. Cyclical performed well while Wall Street was hesitant due to a lack of major economic news.

As mentioned before, European PMIs showcased a certain resilience in Europe and maintained pressure on government bond yields. But a drop in consumer confidence led to a pause ahead of the Jackson Hole symposium. Tariff discussions between Europe and the US continued with the accent on the autos sector. But the failure to obtain an exemption for wines and spirits resulted in **LVMH** and **Pernod Ricard** falling back. Despite the prevailing uncertainty, European indices still have room to rise thanks to expectations that earnings will recover.

In company news, **Novo Nordisk** helped the healthcare sector perform. The stock rebounded sharply after its obesity blockbuster Wegovy received FDA approval to be used to treat MASH liver disease. Elsewhere, **CTS Eventim**, no stranger to volatility when releasing results, sold off after announcing poor figures and dragged down the media sector. The agrifood sector rebounded due to a rotation into defensive plays like **Nestlé**, **Danone** and **Unilever**.

In M&A, **Mediobanca**'s shareholders rejected CEO Alberto Nagel's proposal to acquire **Banca Generali**, a move that would have made **Mediobanca** Italy's second largest wealth manager. This is a setback for Nagel as he wanted to block a government-backed bid on **Mediobanca** from **Monte dei Paschi di Siena** (MPS). **Alstom** signed an 8-year contract with **Great Western Railway** to provide technical assistance and spare parts for trains in the south-west of England. **Air Liquide** signed an agreement with the Macquarie Group to acquire **DIG Airgas**, a leading gas player in South Korea with an enterprise value of €2.85bn. The deal will reinforce Air Liquide's position in the country.

Activist fund Cevian Capital bought 3% **Akzo Nobel** (paints and industrial coatings), a group whose valuation has been under water since the property market turned lower in 2022.

## US EQUITIES

Wall Street had a losing week as of Thursday's close. The S&P 500 was down 1.23%, giving back some of its gains in recent weeks. The Nasdaq fell 2.40%. Ahead of the Jackson Hole symposium and Jerome Powell's speech, the US economy was giving mixed signals. Flash manufacturing PMI for August came in better than expected and returned to expansionary territory. However, customs duties pushed prices higher. Average prices paid are now at a high not seen since August 2022. Rate cut expectations were dampened after cautious statements from some Fed governors and indications in the latest FOMC minutes that inflation risks appeared higher than risks from a slowing jobs market. The mood on the tariff front calmed down after Donald Trump said duties on steel and semiconductors would be announced. India is still a target for tariffs because it buys Russian oil.

Tech was the worst hit, down 2.88% as of Thursday evening. The so-called Magnificent-7 were down 3.47%. **Meta** was the biggest casualty after the group said its AI division was to be restructured and hiring frozen. **Nvidia** was also down due to persistent uncertainty over restrictions in China. Elsewhere, **Walmart** fell after its quarterly results missed expectations. However, management raised annual guidance, citing better-than-expected sales growth in the US (+4.6% vs. +4%). **Target** beat its own expectations. **TJX** (knock-down designer ready-to-wear and accessories) raised full-year guidance after like-for-like sales rose 4%. **Home Depot**, confirmed full-year targets even though second-quarter figures were not quite as good as expected. The cosmetics sector remained under pressure: **Coty** fell due to disappointing quarterly results and limited visibility on a recovery. **Estée Lauder** remained under pressure after disappointing results and prospects.

## EMERGING MARKETS

The MSCI EM index was down 0.80% in USD this week as of Thursday. India, Mexico and China advanced 2.53%, 0.28% and 0.24% respectively. Taiwan, Korea and Brazil declined by 3.67%, 3.67% and 2.05%.

In **China**, the PBoC left the LPR unchanged in August as expected, 1-yr/5yr LPR came in at 3%/3.5%. July retail sales rose 3.7% YoY, or below the 4.6% expected. Industrial production rose 5.7% YoY or less than the 6.0% expected. **DeepSeek** unveiled an upgraded version of its flagship V3 model, featuring enhanced processing speeds and optimised performance for next-generation domestic chips. **Boeing** is heading closer toward finalising a deal to sell as many as 500 aircraft in China. **PopMart** reported a solid beat in their preliminary results thanks to continued strength in its overseas business. **Xiaomi** had a strong quarter with remarkable EV margins at more than 26% GPM. **Sunny Optical** reported a beat on premiumisation. **Bilibili**'s results were in line with strong ad revenues, but management expects mobile gaming challenges in the second half. **AIA** reported a good set of results with new business value growing 16% YoY in the first half of 2025. **Wuxi Biologics** beat expectations in the first half, with a healthy top line, gross margin, net profit and backlog growth. Management raised guidance for the full year (14-16%, up from 12-15%).

In **Taiwan**, July export orders rose 16.7%, or ahead of the 15.2% expected. **Nvidia**'s CEO arrived in Taipei to visit TSMC.

In **Korea**, SEC's 6th-gen HBM4 reportedly passed Nvidia's reliability test. The government will curb foreigners' home purchases in the Greater Seoul area.

In **India**, infrastructure Industry output in July rose 2.0% YoY vs. 1.7% in the previous reading. The government announced an overhaul to GST, lowering and simplifying the tax for Indian consumers. Lok Sabha passed a bill to ban online games involving monetary enrichment. China's foreign minister Wang Yi arrived in India for talks with his Indian counterpart. China lifted the ban on exports of rare earth magnets. **JSW Steel** and **POSCO Group** joined hands to set up 6 MTPA steel plants in India.

In **Brazil**, June economic activity rose 1.38% YoY vs. the 1.20% expected. The Lower House of Congress voted to fast-track a bill that exempts Brazilians who earn up to 5,000 reais per month from income tax.

In **Mexico**, June retail sales rose 2.5% YoY as expected. FDI in Mexico hit \$34.3bn in the second quarter, a 10.2% increase over 12 months. **Banxico** minutes suggested the rate-cutting cycle is to continue, citing a weak jobs market and the stronger peso. **TCS** opened a new AI-driven operations centre in Mexico City.

In **Poland**, President Nawrocki vetoed the wind farm draft bill. The government also announced plans to raise corporate tax in the banking sector.

## CORPORATE DEBT

### CREDIT

In the end, the summer break turned out to be rather calm on the government bond and spreads front. With tariff discussions in full swing, the news that European goods were to be subjected to 15% import duties into the US provided some much-awaited clarity. Markets brushed off the news as the duties will not apply to services and certain sectors like aerospace are exempted.

Jerome Powell continued to stick to his guns even if his position was a little more contentious among Fed rate-cutting committee members due to pressure from Donald Trump. So no rate cut and the Fed chairman concentrated on inflationary risk and its slow spread. CPI in the US, for example, rose to 2.7%. Nevertheless, the Fed is expected to cut in September or October.

The ECB had already made cuts so left rates unchanged. There could still be another cut by the end of this year but in theory no move in September.

10-year US Treasury yields were stable around 4.30% over the summer, trading in a 4.20-4.40% range. The equivalent German Bund rose 25bp to 2.75%. Both investment grade and high yield spreads were also under control. IG spreads narrowed by 15bp to 78bp and HY by 30bp to 270bp. The Xover ended the week at 268bp, or in line with cash bonds.

The new issues market had gradually wound down before the summer but there were still a number of deals in the first half of July among HY issuers like **Paprec**, **Softbank**, **CPI** and **Allwyn** as companies jumped on technical supports and narrow spreads to refinance. July and August saw half-year results from banks. They were mainly upbeat and partly a justification of tight spreads. Euro CoCo spreads actually flirted with historic lows.

As investors return from holiday, we should see the market revving up a little after a lull in recent weeks.

Euro government bonds indices have gained 0.19% since the beginning of the year. Spread sensitive asset classes have made sharply positive gains YTD with IG up 2.51% and HY 4.23% better.

### 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.
- 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