



## EDMOND DE ROTHSCHILD ASSET MANAGEMENT

### MARKET FLASH: SLOWING JOB MARKET AND INFLATION UNDER CONTROL: THE FED IS STILL IN CHARGE

- **In the United States, the latest figures confirm a slowdown in job creation and inflation, reinforcing expectations of further rate cuts. However, equity markets remain under pressure due to lingering doubts about AI.**
- **In Europe, markets were briefly lifted by news on the Ukraine conflict.**
- **In Asia, Japan stood out in a positive way. The Tankan corporate confidence survey hit its highest level in 4 years despite trade tensions with the US.**

**Investors focused this week on the US jobs report. It finally came out after a long shutdown which had left the Fed and markets in the dark. The data showed job creation had slowed while unemployment had risen to 4.6%. Inflation appeared to be improving. Overall inflation came in at 2.7%, or much lower than the 3.1% expected and underlying inflation was 2.6% compared to the 3% expected. However, we should treat this apparent slowdown in inflation despite the trade war with some caution; data on rents was not collected in October so the report assumed that they were stable, an optimistic take which will be corrected in April 2026. As it stands, the figure justifies the Fed's recent decision to cut rates while fuelling expectations of more to come next year. Several Fed committee members, including Stephen Miran, are in favour of an accommodating bias to reduce rates more quickly to neutral levels. Elsewhere, the debate over who will head up the Fed is still raging: Kevin Hassett said he would take Donald Trump's views into consideration while reaffirming monetary policy independence. The Fed may not have triggered worries but artificial intelligence certainly did: Wall Street lost ground due to persistent concerns over the theme.**

**In Europe, markets were briefly lifted by news on the Ukraine conflict. Volodymyr Zelensky said he was ready to discuss guarantees from Western countries instead of formal NATO membership and Russia suggested that an end to the conflict was getting closer although its territorial claims were maintained. Hopes for a peace settlement failed, however, to push equity markets to new highs. Elsewhere, eurozone industrial production rose 0.8% in October but flash PMI reports gave a more nuanced picture. Composite PMI fell to 51.9 with both manufacturing and services down. The ECB made no surprise decision and chose to remain in long pause mode. However, the bank raised its growth and inflation forecasts.**

**The UK situation is similarly mixed. Unemployment rose to 5.1% with private sector jobs and wage growth slowing but composite PMI data rose to a more robust 52.1 thanks to both services and manufacturing. Disinflation was bigger than expected so the Bank of England now has more room to cut rates.**

**In Asia, Japan stood out in a positive way. The Tankan corporate confidence survey hit its highest level in 4 years despite trade tensions with the US. Manufacturing PMI also improved but services slipped. In a unanimous decision that was largely expected, the Bank of Japan's rate-setting committee raised its benchmark rate by 25bp to 0.75%. The bank said the economy was recovering gradually but real wages and prices were still rising so a rate rise was justified with inflation as expected at 2.9%. At the press conference, chair Kazuo Ueda said nothing about a neutral level or any future rate hikes. Japan's long bond yields then continued to rise and the yen fell further.**

**China, in contrast, reported disappointing economic data for November with industrial production, retail sales and investment all down.**

**We are reinforcing risk assets and particularly Japanese equities, which will be underpinned by PM Sanae Takaichi's accommodating policy plan, and also US equities which stand to gain from more accommodating budgetary and monetary policies. We are sticking with a tactical positive bias on duration and focusing on emerging country debt and higher-rated corporate bonds. We have taken profits on some of our US dollar hedges.**

## EUROPEAN EQUITIES

It is turning into a strong year end for European equity markets. The German government said a record €512bn would be raised in 2026 to fund massive investments in infrastructure and defence. The ECB left its rates unchanged but raised its growth and inflation forecasts, and particularly for 2026. In contrast, the Bank of England cut its benchmark rate by 25bp but the vote in favour was very close. And the European Commission, bowing to strong pressure from European manufacturers, abandoned its plan to ban new internal combustion engines from 2035 and revised down its carbon emission targets for the sector.

In company news, **ASML** could have a new Chinese rival in the EUV market even if the high-potential Chinese prototype is still far from being an industrial-scale tool. Elsewhere, **Accenture** said strong demand for AI solutions helped it beat third-quarter sales expectations. In healthcare news, the Trump administration is reportedly in talks with **Roche** and **Novartis** to reduce the price of some treatments. In exchange, Washington would ease tariff threats as it has already done for others in the sector. **Sanofi** halted work on its multiple sclerosis Tolebrutinib drug after disappointing Phase III trial results. **Spie** increased its presence in Australia by acquiring **Worley Power Services**, a company which provides operation and maintenance services to power generation assets. **Leonardo** won a new order from Austria for 12 training planes, another sign of the uptrend in defence spending. **Rheinmetall** chose two candidates for the sale of its auto Power Systems division, a move which is part of the company's drive to refocus on its core defence business. The group also adjusted its guidance for this year.

## US EQUITIES

In a week of sector rotation and strong volatility in AI stocks, the S&P 500 shed 0.77% and the Nasdaq 100 slid 0.70%. Tech and semiconductor stocks consolidated amid mounting worries over the sustainability of data centre capex and funding but the market rallied at the end of the week after November inflation came in at an annualised 2.7%, or much lower than the 3.1% expected by analysts. November's jobs report, which had difficulty collecting data, reported

64,000 job creations and unemployment at 4.6%. As a result, the probability of another Fed rate cut in January moved above 25%. In company news, **TikTok** signed an agreement to set up a US joint venture to avoid a US ban. In the background, tensions with Venezuela were rekindled after Donald Trump decreed a blockade of all sanctioned Venezuelan tankers. The US angered Beijing by increasing its arms sales to Taiwan by \$10bn

Technology and AI dominated company news. **Oracle** (-5.2%) sold off after the FT reported that **Blue Owl** (+0.9%) had withdrawn from a \$10bn funding round for a Michigan data centre. Oracle said the report was unfounded and also denied that there were delivery delays for **OpenAI** sites. **Broadcom** (-8.4%) tumbled after its results fell short of very demanding expectations and semiconductors and AI infrastructure stocks were dragged down. In megacaps, **Alphabet** (-2.2%) announced a flash version of Gemini 3 and YouTube won a multiyear contract to broadcast the Oscars from 2029. **Nvidia** (-0.5%) signed an agreement with the US Department of Energy (DoE) to accelerate scientific discovery through AI infrastructure. Ahead of a possible IPO in 2026, **SpaceX** authorised an insider share sale valuing the company at \$800bn. **Trump Media** soared 39.8% after news of a merger with nuclear fusion energy developer **TAE Technologies**. In consumer spending and services, results at **Nike** (-2.6%) showed that China was still the main concern. **Boeing** (+1.9%) once again delayed its VC-25B (Air Force One) programme which is now scheduled for mid-2028. In healthcare, **Pfizer** (-3.1%) disappointed investors by warning that 2026 would be a difficult year due to lower-than-expected Covid sales and pressure on margins. **Medline's** mega **IPO** was a big success, raising around \$6bn. The share soared on its first day of trading.

## EMERGING MARKETS

The MSCI EM index was down 2.27% in USD this week as of Thursday. All major emerging markets ended in the red. Taiwan, Korea, Brazil, China, Mexico and India lost 3.87%, 3.69%, 3.36%, 2.32%, 0.91% and 0.53% respectively

In **China**, November retail sales rose 1.3% year-over-year, missing the 2.9% estimate and slowing from October's 2.9% growth. Industrial production increased 4.8% year-over-year, below the 5.0% estimate and down from 4.9% in October. January-November fixed-asset investment fell 2.6% year-over-year, or worse than the -2.3% estimate and worse than the minus 1.7% in the prior period. **New China Life insurance** reported year-to-date premium income of RMB 188.85bn, a 16% year-over-year increase.

**Taiwan's** central bank kept its key rate unchanged at 2% as expected. November M2 money supply rose 5.11% year-over-year, while M1B increased 4.94%. The Trump administration announced a \$11bn arms sales package to Taiwan.

In **Korea**, export prices climbed 7% year-over-year in November, up from 4.8% in October. The UK and South Korea struck a crucial free trade deal, averting tariff increases on £2bn worth of British exports.

In **India**, export growth rebounded in November to 19.4% YoY vs. the previous reading of -11.8%. India's parliament approved an atomic energy bill to open up nuclear power to the private sector. **Shriram Finance's** Board approved an equity raise from **MUFG Bank** via a preferential allotment of shares.

In **Brazil**, October economic activity unexpectedly contracted by 0.25% month-over-month, missing the 0.1% increase estimate. The Chamber of Deputies approved the second draft regulation of tax reform. The government announced it would contribute R\$6bn to BNDES to

create a credit line for truck purchases. **Itaú** approved a capital increase of BRL12.8bn through the issuance of 321.2 million new shares allocated free of charge to shareholders as a bonus.

In **Mexico**, the central bank cut its overnight rate by 25bp to 7% as expected. October retail sales rose 3.4% year-over-year, beating the 3% estimate. The government unveiled a tariff package aimed at protecting 350,000 jobs at companies including **GM** and **Ford** from Chinese imports.

## CORPORATE DEBT

As is usual before Christmas, market activity shrank and new issuance was practically closed for business.

The ECB left its rates unchanged on Thursday at 2% but raised its growth forecast for 2026 to 1.2%, thereby assuming growth will be soft. The bank expects inflation to be under control at around 2%, an ideal scenario for corporate debt holders.

In the US, CPI came in at 2.7%, or 0.4% lower than expected and Treasuries rose. As of Friday morning, 10-year US Treasury yields were at 4.14%.

The iTraxx Crossover index fell to 247bp, its tightest level since the beginning of 2022.

Year to date, investment grade (IG) and high yield (HY) have returned 2.9% and 5.3%. IG currently yields 3.2% and HY 5%, or still around the 60th percentile over 10 years so carry strategies still look attractive.

## 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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