

LETTER FROM THE CIO AM

MARKET ANALYSIS
AND PRINCIPAL INVESTMENT THEMES
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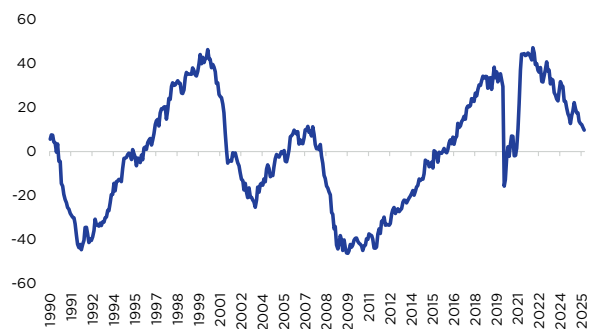
A bumpy end to the summer, with stable allocations

On either side of the Atlantic, these past few weeks have been bustling with news. Although we chose not to adjust our allocations in response to these headlines, we did strengthen several of our convictions and have identified new factors calling for vigilance.

Changes at the Fed

Pivot at the Federal Reserve: Jerome Powell's speech at the Jackson Hole conference placed emphasis on the weakness of the labour market rather than on inflation - which remains above target - even though prices will rise as higher tariffs spread to the economy. His conviction was all the greater, as the effect will only be temporary. Mr Powell stated that whatever its root causes, the slowdown of the job market has now become the issue that will drive monetary easing. Yet the impact differs whether this slowdown stems from supply (brutal drop in immigration) or demand (cautious hiring policies). Twice, the risk of inflation was minimised. The market now expects the Fed to normalise its monetary policy towards 3% - a level aligned with the median view on neutral long-term rates expressed by the Fed's Monetary Policy Committee.

Households reporting "a job is easy to get"
versus those reporting "a job is hard to get"
(Conference Board)



Source: Bloomberg. Data as of 31/08/2025..

The data refers to past years and is no guide to future results.

Immigration and the slump in corporate hiring explain the slowdown of the labour market.





The Fed's independence is under threat:

after Adriana Kugler's surprise resignation (the reason remains unknown), President Trump and his administration are now piling pressure on Lisa Cook to step down (quoting two mortgage loans declared for two primary residences). If the administration replaces Lisa Cook, the Fed's Board will include 4 members appointed by the President, out of a total of 7. In February next year, the 12 regional Fed representatives will be reappointed pending approval by the Board. Supposing that these four Board members coordinate their actions with the Trump administration, the latter could easily extend its majority within the Monetary Policy Committee.

"We'll have a majority very shortly, so that'll be great," Trump said. "Once we have a majority, housing is going to swing and it's going to be great. People are paying too high an interest rate."

(CNN, 28th August)

The market has barely reacted to these challenges to the Fed's independence, despite the fact that the central bank is a pillar of the American economic and financial system. The dollar has continued to stabilise against all other currencies. Ultimately, the question is whether this power grab could lead to a "Bessent vision" (in favour of a 150-basis point rate cut, which is not inconsistent with the fundamental results of a Taylor rule and is already more or less anticipated by the market), or a "Trump vision" (who calls for a 30% rate cut). Losing independence is one thing; losing credibility is another. However, it would be dangerous to spend too much time on this subtle distinction, and we prefer to believe that the downside risk on the dollar will continue to rise.

Restoring the credibility of the Fed's pivot and challenges to the Fed's independence have created an asymmetrical downside risk for the dollar and short to mid-term rates in the US. The situation calls for prudence on long-term rates: if the Fed loses its independence and later its credibility in an environment of rising inflation due to tariffs, and as household inflation forecasts have not yet been stabilised, a new inflation surge cannot be excluded.

France: no solution to the crisis, but no disaster in sight

The Prime Minister's call for a vote of confidence held on September 8th has caused a rise in volatility across sovereign debt and French equities. Rather than the scale of the deficit reduction (this year, aligned with the government's pledges), the real problem for France lies in political instability and the difficulty to vote budgets. Strikingly, since Georgia Meloni was appointed President of the Council in Italy, the French Fifth Republic - which was created to provide political stability - is now bracing for a fifth Prime Minister. Three scenarios are shaping up in the event of a vote of no-confidence:

1. the appointment of a new government run by a Prime Minister picked from the presidential political family (right-wing or possibly moderate left-wing), in an attempt to broaden the base: at best, fiscal efforts would be adjusted and lowered. The situation would remain critical, but unchanged overall. This is the scenario currently favoured by capital markets and which appears to have been factored in by investors.

2. a dissolved Parliament, which could either:

- reappoint the current MPs (possibly with a few changes), weakening the presidential family. Voting the budget would be more difficult. If the latter comes to a standstill, the government could rely on executive orders to pass expenses and revenues and adopt temporary monthly credits. However, this situation would not be sustainable politically beyond a few months and would not help with lowering the deficit. The French spread would widen a little further, but a financial crisis seems unlikely.
- or allow the RN party to achieve a majority. The far-right party has given up on "Frexit", reviewed its flagship and costly pledge to lower the retirement age to 60, and can now leverage its lobbying of economic leaders during the latest electoral campaign. A victory may no longer be a red flag for investors. The need to build up credibility is likely to push up the country's risk premiums.

The idea of a new left-wing coalition and its victory, the scenario most feared by the markets, seem unlikely today owing to high dissent in the ranks and declining polls.



3. the resignation of President Macron in response to the political crisis would confirm the country's inability to reach a consensus, reshuffle the cards, and initially raise the uncertainty premium.

From our point of view, there is little opportunity today to reposition our portfolios in favour of French assets after their recent under-performance, and no reason to trim our exposure any further.

Overall, we have kept a modest equity underweight via the United States. Indeed, if the Fed's pivot or loss of independence is favourable to equities, we believe that the wave of upward corporate earnings revisions - which was very powerful in recent weeks - is nearing the end. Until the higher tariffs spread to end-consumer prices, we fear some downside pressure on company margins.

Finally, the issue of how to monetise generative AI investments is gaining momentum. Some surveys, including the study conducted by MIT and published this summer, highlighted the very limited impact that generative AI has had for a large number of users.

Furthermore, growing competition from China has put into perspective the oligopolistic status that a handful of US players had earned de facto.

We have not reviewed our allocation to Europe in response to French events. In bond markets, we prefer carry strategies and avoid maturities that are too long. Finally, we are under-exposed to the dollar owing to the importance of the message sent out at Jackson Hole and the challenges to the Fed's independence.

	Our convictions	Changes compared to the previous month
ASSET CLASSES		
Equities	-	→
Fixed Income	=	→
Dollar	-	→
Cash	=	→
EQUITIES		
US	-	→
Europe (ex-UK)	=	→
UK	+	→
Japan	=	→
China	=	→
Global Emerging	=	→
SOVEREIGN BONDS		
US	=	→
Euro Zone	=	→
Emerging Markets	=	→
CORPORATE BONDS		
US Investment Grade	+	→
Euro Investment Grade	+	→
US High Yield	=	→
Euro High Yield	=	→

Range of investment committee ratings on the asset class/geographical zone (from -/- to +/+). Source: Edmond de Rothschild Asset Management (France). Ratings at 29/08/2025.



KEY POINTS

- Jerome Powell's speech at the Jackson Hole conference placed emphasis on the weakness of the labour market rather than on inflation, which remains above target.
- Restoring the credibility of the Fed's pivot and challenges to the Fed's independence have created an asymmetrical downside risk for the dollar and short to mid-term rates in the US.
- In France, the Prime Minister's call for a vote of confidence has caused a rise in volatility across sovereign debt and French equities, without prompting us to change our allocation for Europe.



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