Asset Management Market Flash: “Neither war, nor peace”

18 September 2026

- **The “neither war nor peace” scenario in the Middle East is fueling volatility, while tensions surrounding oil infrastructure and the Strait of Hormuz are exacerbating supply risks and global inflation.**
- **Faced with persistent inflation, central banks are maintaining a restrictive stance, leading to a broad-based rise in interest rates in the United States, the eurozone, and Japan.**
- **Despite rising interest rates and concerns surrounding certain issues related to artificial intelligence, equity markets have seen only a modest decline.**

The “neither war, nor peace” scenario continued to fuel volatility, a token of market sensitivity to geopolitical developments.

In the Middle East, tension rose after a meeting of the Gulf Cooperation Council with Iran was cancelled and Saudi Arabia’s east-west pipeline was hit by drones. Houthi attacks on Saudi Arabia reinforced the risk of longer oil supply disruption. Brent crude jumped to $109, taking the rise since the beginning of this month to close to 20%. The prospect of prolonged disruption to shipping in the Strait of Hormuz is now a major risk for the global energy market as well as inflation. Investors were particularly struck by the fact that Donald Trump failed to react immediately despite the worsening situation. Markets then looked for signs to support chances of de-escalation and a resumption in tanker transits.

Persistent inflation and the extended Middle East conflict sent interest rates higher across the board. Yields on 10-year US Treasuries broke above 5% for the first time since 2023. The Fed was forced to raise rates by 25bp, a unanimous decision that reinforced Kevin Warsh’s credibility. The rise was justified by sticky inflation, a resilient labour market and strong growth. The Fed also left the door open to another hike should disinflation fail to return in the near future.

In the eurozone, markets are now factoring in close to 100bp in cumulative ECB rate hikes by September 2027. The Bank of Japan also raised rates by 25bp to fight both domestic and external inflationary pressure and persistent yen softness. Japan’s short and long rates hit 30-year highs. The Bank of England, however, left rates unchanged at 3.75% due to rising unemployment. But the bank also presented a long-term plan to shrink its balance sheet which helped long term bond yields fall back.

With rates on the rise, equity markets fell but losses were limited even with increased concerns over some AI themes. This resilience suggests that investors have already factored in higher risk, whether over rising oil prices, tension on long term bond yields or expectations of monetary tightening. We, however, are not convinced that current bond yields will stay at these levels for a long time. The economic pain from a lasting escalation combined with high rates could result in things calming down, at least partially, before the end of this year.

With interest rates now at more attractive levels, we have stepped up the search for carry and are now overweight short to medium term maturities. A prolonged rate-hike cycle is not our core scenario and the Fed’s dot plots seem to go along with this idea. We remain upbeat on equity markets: they have managed to remain stable and buoyant results should help them absorb current interest rate levels. We remain negative on the US dollar.

European equities

Trading remained dominated by geopolitical and energy market developments amid persistently high volatility. The Stoxx Europe 600 rose thanks to cyclicals while tighter credit spreads indicated a temporary return of risk appetite.

In company news, **Exosens** boosted its 2026 targets as sales remained strong and margins moved to record highs. **Soitec** secured €500m in funding at favourable conditions, reinforcing its financial flexibility to help it ramp-up its AI-powered Photonics-SOI solutions. In healthcare, the intermediary success of Phase III trials for CELESTIMO was slightly positive news for **Roche** and underpinned the potential of Lunsumio in follicular lymphoma. In the industrial and engineering segments, news was more mixed. **Prysmian** crossed a significant regulatory mark in its acquisition of **Atkore**, a deal that should enhance EPS over the medium term thanks to synergies. **Técnicas Reunidas,** which is specialised in building energy facilities, offered markets a pleasant surprise with a buyback programme that showed the group was confident over cash generation. As part of its strategy to seek higher value-added solutions, **Technip Energies** reinforced its exposure to standardised and electrified LNG with a partnership with **Honeywell** and **Siemens Energy**. But Germany's **Bilfinger** (construction and services) issued a profit warning, citing the impact of geopolitical uncertainty and energy price volatility on investment decisions. Margins are expected to decline significantly. **AXA's** new earnings growth objectives were higher than expected. **Capgemini**'s sale of its Government Solutions division resolved a reputation issue and with a limited financial impact.

US equities

US equities traded in a narrow margin over the period with the S&P 500 down 0.25% and the Nasdaq 100 up 0.27%. But the Russell 2000 shed 1.01%. The Fed raised rates by 25bp to 3.75-4.00%.

Tech edged 0.2% higher but the **SOX** index tumbled 1.9% due to declines in equipment makers. **Intel** (+5.7%) and **AMD** (+5.6%) rose on fresh optimism on demand for AI infrastructure. This followed comments from **Nvidia**'s CEO and news of price increases for some GPU compute services. On the other hand, equipment manufacturers like **Applied Materials** (-8.6%) and **Broadcom** (-4.1%) underperformed. Quarterly results at **Oracle** (+0.2%) beat expectations, largely due to a 121% surge in cloud infrastructure revenues. However, markets remained wary of soaring investments and pressure on margins from efforts to build AI capacity.

Energy dipped 1.1% despite oil moving slightly higher over the week. Prices fell back from peak levels after Saudi Arabia said its east-west pipeline was partly back in service. News of the return of some Libyan oil fields also played a part. Oil services stocks had a bad week with **SLB** off 7.1% and **Halliburton** 2.1% lower.

Healthcare (+2.1%) led sector gains thanks to the life sciences and medical device segments as well as advances for major pharma groups. **Eli Lilly** gained 3.3% on positive clinical trials for obesity treatments. Financials (-2.4%) led losses after several major banks sounded a cautious note ahead of the results season. **Bank of America** tumbled 7.2% after management said third-quarter trading revenues would be flat over a year and investment bank commissions lower than consensus expectations. **Goldman Sachs** plunged 7.6% after revealing weakness in bond, currency and commodity trading as well as rising costs.

Emerging markets

The MSCI EM was down 1.88% in USD on the week to Friday, with all major emerging markets in the red. Korea, Brazil, Mexico, India, China and Taiwan lost 5.78%, 2.09%,1.33%,1.05%, 0.90% and 0.41%, respectively.

In **China**, August activity data continued to confirm a two-track economy. Industrial production beat at +5.2% YoY (est. +4.8%, prior +4.5%) while retail sales missed badly at +0.4% (est. +0.8%, prior +0.6%), Jan–Aug fixed-asset investment ex-rural fell 7.2% YoY (est. −7.1%, prior −6.7%) and property investment deteriorated to −19.9% (from −19.2%). US Treasury Secretary Soctt Bessent will meet China's He Lifeng this weekend before the expected Xi–Trump summit on 24 September in Washington, with the US reportedly withholding new tariff announcements until after that date. Both sides are to discuss cuts on US energy and farm shipments and on Chinese manufacturing inputs under the earlier ~$30bn reciprocal plan.

In **Taiwan**, the CBC held the key rate at 2.00%, or in line with expectations. The forecasts were revised up: 2026 GDP growth to 11.48% from 9.45%, with 2026 CPI nudging to 2.03% from 1.91%. TSMC announced plans to boost 2nm capacity by 22% to 110,000 wafers/month by mid-2027 and 3nm more than 16% to 210,000.

In **South Korea**, August PPI came in a little soft at 7.9% YoY (vs ~8.1% expected, prior +7.7%, +0.2% MoM). Seoul also extended fuel tax cuts until the end of November. August auto exports fell nearly 30% YoY due to fewer working days and strike-related disruption. Hynix confirmed it is “exploring options” with Intel over leasing part of the planned Ohio complex or a JV with Intel and major cloud firms.

In **India**, August CPI accelerated to +4.82% YoY (est. +4.86%, prior +4.45%), the fastest since December 2024, with precious-metal jewellery +35.5% and silver jewellery +107.1% doing much of the work. The August deficit narrowed sharply to $26.9bn against $32.15bn expected and $31.98bn prior, as merchandise and services exports accelerated to +25.4% YoY ($82.68bn) from +13.3% in July while imports rose 18.8%. The Tata Sons board approved a public listing, and Shapoorji Pallonji proposed monetising part of its holdings. Applied Materials announced $5bn in investments over ten years, while Nexperia agreed to manufacture and package power chips with Tata Electronics.

In **Mexico**, industrial production grew 2.7% YoY in July ahead of expectations of 1.8%. ANTAD same-store sales rose 1.7% YoY in August (+4.2% including new stores).

In **Brazil**, Copom cut the Selic rate by 25bp to 13.75%, or in line with expectations, leaving the next move data dependent. Retail sales for July grew 1.2% YoY, or below expectations of 2.3%. Finance minister Dario Durigan promised “more orderly fiscal policy” and lower rates ahead, committing to cut mandatory spending and tax benefits.

Corporate debt

Rising oil prices, higher-than-expected US inflation and central bank tightening led to very volatile trading. Brent crude briefly topped $109 due to Middle East tension. More expensive oil and higher-than-expected inflation in the US reinforced the scenario of rates staying higher for longer.

The Fed raised rates by 25bp, taking the upper limit on Fed Funds to 4%, while not ruling out another hike in October. In the eurozone, the ECB remained strongly committed to fighting inflation even if the recent fall back in energy prices trimmed expectations of a rate rise in the near future

Government bond yields rose sharply before falling back a little at the end of the period. Yields on 10-year US Treasuries broke above 5% before returning to below 4.95%. The 2-year Treasury yield hit 4.62%. In Europe, the yield on the 10-year German Bund ended above 3.50%, a rise of around 17bp in a week. France's equivalent OAT yield rose to 4.50%, a high not seen since 2008.

The Xover was unchanged at around 258bp. EUR High Yield and Investment Grade both gained 0.05% over the week, taking YTD performance to +0.95% and -0.85%. EUR AT1 debt gained 0.2% over the period and is up 2.4% YTD.

In a busy high yield new issuance market**, Energia** raised €850m at 5.5% due October 2032. **Hella GmbH & Co KGaA**, a German auto supplier, raised €300m at 5.25% due September 2030. In financial debt**, Credit Agricole** raised €750m with a perpetual AT1 bond at 6.40%.

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.

EDMOND DE ROTHSCHILD ASSET MANAGEMENT (FRANCE)
47, rue du Faubourg Saint-Honoré 75401 Paris Cedex 08
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AMF Registration number GP 04000015
332.652.536 R.C.S. Paris