EDMOND DE ROTHSCHILD ASSET MANAGEMENT

MARKET FLASH: MARKETS KEEP THEIR CALM DESPITE ESCALATION IN THE MIDDLE EAST

- **The US Secretary of commerce said around 10 trade deals had been signed, and progress is being made in discussions with China.**
- **In Europe, the NATO countries, except Spain, agreed to increase defence spending to 5% of GDP.**
- **Japan's PMI composite is expanding, contrasting with Europe's PMI, particularly in France, where the political situation is fragile following the failed pensions working party.**

Despite the US intervention in Iran, markets stayed calm. Iran's riposte targeting the US base in Qatar was seen as purely symbolic and the subsequent ceasefire bore this out. Over the medium term, however, there is uncertainty over how much time has been gained before Iran manages to build a nuclear bomb.

But the markets focused on trade talks and the US budget question. US secretary of commerce Howard Lutnick said around 10 trade deals had been signed and that discussions with Beijing were advanced on a text that would make ongoing compromises official. Details are, however, thin on the ground and the July 9 deadline will be difficult to respect for all parties. As for the budget, the revenge tax (section 899) could be withdrawn if major G7 countries agree to exempt US companies from the minimal global tax scheme.

In Europe, NATO countries, with the exception of Spain, agreed to increase defence spending to 5% of GDP. Germany said its draft budget would raise spending from the end of this year with 3.5% of GDP going on purely military spending.

Germany's IFO business climate index came in at 90.7, or better than the 89.9 expected. But Europe's PMI readings remained disappointing with the composite unchanged at 50.2 in June when it was seen improving to 50.4. France in particular stands out: the political situation is fragile following the failed pensions working party and manufacturing PMI came in at 47.8, or sharply lower than the 49.8 expected.

Japan, in strong contrast, saw its composite PMI rise to 51.4 from 50.2 in May, lifted by manufacturing (50.4 vs. 49.4). Composite PMI in the US also beat expectations, coming in at 52.8 vs. 52.1 even if the reading was slightly down on May's 53. New manufacturing orders are still seeing strong momentum as companies build up inventory during the 90-day trade truce.

This is almost certainly why customs tariffs have so far failed to feed through to US inflation, a point of view shared by Jerome Powell. That said, dissenting voices in the Fed are starting to be heard, ahead of the end of Powell's mandate in 2026. FOMC member Christopher Waller, Powell's potential successor, is in favour of a 3% neutral rate and a rate cut as soon as next month. He wants to avoid waiting for the labour market to worsen more sharply

before acting. His views were backed up by vice-chair Michelle Bowman. Donald Trump then piled in by saying that he might soon name his pick to head the central bank. The intention was to weaken Jerome Powell's stance which is nevertheless the majority view in the Fed.

The prevailing mood underpinned risk assets and sent government bond yields and oil prices lower even if uncertainties abound head of the July 9 deadline. We remain cautious on equities and duration and prefer bond carry strategies.

EUROPEAN EQUITIES

Financial markets turned a little optimistic this week thanks to the (fragile) ceasefire between Israel and Iran and reduced US-China tensions after the White House announced an agreement on Chinese rare earth exports. In Europe, the basic resources sector rose on estimates that metals, and especially copper, would rise in price. In addition, mounting expectations that the Fed might cut rates in July lifted equity markets, offsetting worries about US customs tariffs. Nevertheless, tariff threats are still one of President Trump's economic weapons: after Spain refused to join other NATO countries in increasing arms spending, Donald Trump immediately threatened to double the country's tariffs.

In company news, France's **Worldline** plunged after being accused of covering up client fraud. The group insisted it had cleaned up its portfolio but the accusations could jeopardise discussions on new contracts and the group's future. Elsewhere, **H&M** gained ground on a results beat. Margins were better than expected and demand was robust. Management is upbeat for the second half of this year thanks to the group's efficient costs management and favourable currency effects. **ALSTOM** rose over the week thanks to winning a €1.7bn contract from SNCF Voyageurs for 96 new generation suburban trains. **Veolia** plans to expand its dangerous waste treatment capacity by more than 100,000 tonnes thanks to new incineration units and strategic acquisitions, notably in the US, Japan and Brazil. **Trigano** said new orders had increased substantially and that cash flow generation was solid. Strong demand gives the stock good visibility. **Novo Nordisk** is teaming up with WeightWatchers to distribute Wegovy via CenterWell, rather than Him & Hers, from July 1st. The deal will broaden access to the drug for a large section of the population.

US EQUITIES

Wall Street advanced, with the S&P 500 up 2.7%, the Nasdaq 3.2% better and the Russell 2000 2.8% higher. The dollar continued to lose ground against the euro, ending the period at 1.17 (-2.1%).

The Iran-Israel ceasefire sent Brent crude tumbling to pre-conflict levels at $67. As a result, the energy sector lost 2% over the period, hitting **Schlumberger** (-5.6%), **Baker Hughes** (-1.7%) and **Exxon Mobil** (-2.8%).

Tech surged 4% over the week. Chip makers like **Nvidia** (+6.6%) and **Broadcom** (+7.8%) continued to ride on AI momentum which shows no sign of slowing. **Nvidia** is now flirting with the $4, 000bn valuation mark and has unseated Microsoft as the world's biggest market cap. **Amazon** (+2.2%) is to invest more than $54bn in the UK over the next three years to extend its warehouse network and AI infrastructure to reinforce online shopping and its cloud business.

In consumer discretionary, **Tesla** gained 1.2% after a fleet of 12 robotaxis started operations in Austin, Texas. And yet Tesla's EV sales in Europe plummeted 40% in May. Cruise group **Carnival** jumped 10.8% on upbeat quarterly figures and management's decision to raise guidance for the rest of this year. The rise reflects a revival in consumer spending and fewer worries over the economic environment. However, the consumer staples picture is still mixed as consumer habits change. Cheerios maker **General Mills** (-4.9%) is a good example. Its quarterly results fell as people bought fewer snacks and customs tariffs started to impact the group's cost management.

Healthcare rose,1.2%, financials 3.4% and industry 2.5% over the week while property shed 1.3%.

EMERGING MARKETS

The MSCI EM index was up by 3.19% in USD this week as of Thursday with all major emerging markets closing in the green. Korea, Mexico, Taiwan and China advanced by 3.80%, 3.63%, 3.36% and 3.05%, respectively. India and Brazil gained 2.96% and 1.01%

In **China**, May industrial profits dropped 9.1% YoY vs. +3% in April, missing consensus expectations. The US and China finalised the tariff framework reached last month in Geneva; it includes China's commitment to deliver rare earths and the US will remove some countermeasures. The government is planning to launch subsidies in counties and towns to boost sales from July to December. Payment Connect, a faster payment system, was officially launched between the Chinese mainland and Hong Kong. The Hong Kong stock exchange chairman said there were about 190 potential listing candidates. **Guotai JunAn** received regulatory approval, becoming the first Chinese broker to offer full virtual asset trading in HK. **Apple** joined China's national subsidy programme to boost sales amid rising competition and economic challenges. **Meituan** announced an organisational restructuring to combat intensified industry competition. **CATL** reaffirmed its Hungary factory expansion plan. **Xiaomi** hosted a product launch event and unveiled a new SUV model pricing. It received over 200,000 pre-orders in 3 minutes.

In **Taiwan**, May export orders rose 18.5% YoY vs. the 19.4% increase expected. **Foxconn** will invest $1.49bn to set up an iPhone component manufacturing facility in India.

In **Korea**, President Lee argued for a supplementary budget to boost the economy, including universal consumption vouchers and debt relief for over 1 million people. The US Department of Commerce is considering revoking authorisations granted in recent years to global chipmakers **Samsung**, **SK Hynix** and **TSMC**, making it more difficult to receive US goods and technology at their plants in China.

In **India**, May exports of mobile phones amounted to more than $3bn, a 74% YoY increase. On Tuesday, the central bank announced a plan to withdraw excess short-term cash from the banking system. President Donald Trump suggested a deal with India could be signed very soon; an Indian delegation is in the US this week to iron out the details. Credit card spending, supported by a healthy growth in net card additions, grew by 14.5% YoY in May. **HCL Tech** announced a partnership with global semiconductor major **AMD** to develop AI solutions.

In **Brazil**, inflation for the first half of June rose 5.27% as expected. May's current account deficit was $2.9bn, up from $1.3bn in April. According to local press reports, the government will announce a new tax incentive programme for new vehicle purchases. The incentive amount has not been disclosed but it is expected to last until December 2026. Congress voted to repeal tax increases on international transactions decreed by the President

In **Mexico**, the central bank lowered its benchmark rate by 50bp to 8.00%, as largely expected. Biweekly CPI for the first half of June rose 4.51% YoY as expected. Real activity rose by a robust 0.54% MoM in April, or much better than the 0.10% increase expected. Mexico is in discussions with the US to establish quotas on duty free steel exports to the US or at reduced tariff (vs. the current 50% tariff, established in March 2025). The CNBV decreed a “temporary managerial intervention” at the Mexican banks **CIBanco** and **Intercam** after money laundering accusations made by the US Treasury Department.

In **Argentina**, **Globant**’s CEO confirmed that the company had laid off 3% of its global workforce.

In **Poland**, the finance minister proposed cutting interest rates on bank reserve deposits at the Central Bank. It is currently 3.5% compared to the benchmark rate of 5.5%.

CORPORATE DEBT

CREDIT

Washington’s direct involvement last weekend in the Iran-Israel conflict was the focal point for investors as trading started the week. But markets were very quickly reassured by the fact that oil-producing sites were not attacked and by Tehran’s moderate response which then led to a ceasefire. So instead of a flare-up, the situation calmed down, at least for the time being, and oil plunged $10 over the week. Credit indices emerged from the jitters and the Xover moved from 310 to 288bp over the period. Investment Grade and High Yield returned 0.10% and 0.12%. In the US, the planets aligned: no surge in oil prices, disappointing but unalarming economic data, signs the China-US trade war was abating and a new Powell bashing session from Donald Trump all sent 2-year Treasury yields 15bp lower and major US indices back to record highs.

Amid this agitation and uncertainty, European companies rushed to seize the chance to sell bonds before the summer break. There were no less than 4 new CoCo issues in the first two days of the week. And, in a promising move, there was a new Tier 2 issue from **Deutsche Pfandbriefbank**, a specialist in property financing which had run into some trouble while rates were rebounding higher. Among corporates, European defence group **Czechoslovak** sold its first bond and there was an issue from **Skechers**, a major US manufacturer of athletic footwear. Both issues went down well.

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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