



EDMOND DE ROTHSCHILD ASSET MANAGEMENT

MARKET FLASH: MARKETS WEIGH A GEOPOLITICAL TRUCE AND CONFLICTING DATA

- **This week's US data were mixed and led to some interest rate volatility.**
- **In Europe, European leaders argued for structural reform, thereby driving expectations of a "European wake-up call". Simultaneously, the Banque de France forecasts resilient French growth in the current quarter.**
- **In Japan, Sanae Taikaichi's resounding electoral win gave her an absolute majority in parliament and could help her roll out a programme which includes tax cuts and higher investment.**

Geopolitical tensions eased a little over the week despite the absence of any real progress in US-Iran talks. Markets are relying on Donald Trump's claim that an agreement could be reached in the next month. That remains to be seen: it would need to be confirmed by the US reducing its forces in the Gulf and stopping preparations on US bases.

This week's US data were mixed and led to some interest rate volatility. Retail sales were disappointingly flat after November's 0.6% increase. The NFIB small business optimism index fell from 99.5 in December to 99.3 and the Employment Cost Index (ECI) rose 0.7% which was its lowest reading in four years. US 12-month inflation expectations are still high but fell to 3.5%, down from 4% in January while 5-year expectations rose by 10bp to 3.4%. Labour market data surprised on the upside with 130,000 job creations, up from 50,000 in December. The unemployment rate fell from 4.4% to 4.3% and wages rose by a still robust 3.7% vs. 3.8% in December.

In Europe, European leaders argued for structural reform, thereby driving expectations of a "European wake-up call". Sigmar Gabriel, who was a minister under Angela Merkel, called for German and French armies to pool financing. Elsewhere, the Bank of France expects the economy to grow by a resilient 0.2-0.3% in the current quarter. In the UK, however, the economy only grew by 0.1% in the fourth quarter of 2025, or less than the 0.2% expected.

In China, inflation fell back to an annualised 0.2%, down from 0.8% in December. Underlying inflation retreated to 0.8% (+1.2%) due to energy prices and base effects. Producer prices, however, were down 1.4% (after a 1.9% drop in December) as metal prices rallied.

In Japan, Sanae Taikaichi's resounding electoral win gave her an absolute majority in parliament and could help her roll out a programme which includes tax cuts and higher investment. The plan is likely to increase inflation and lead the Bank of Japan to continue raising rates and the yen to strengthen further. The market is, however, looking closely at how the programme will be funded and the Prime Minister seems to have taken this into account.

Back in Europe, markets are concerned about UK political risk from the resignations of close aides to PM Keir Starmer following the Epstein files release. Starmer's future is now looking fragile and a replacement might undermine budgetary decisions. For the moment, he has

won the support of leading party officials but the local elections in May are likely to be bad for Labour and could rekindle calls for him to leave.

We remain upbeat on equity markets with a focus on emerging country and Japanese equities. We are also positive on corporate debt. We have reinforced positions in US Treasuries and emerging country government debt but remain cautious on the dollar.

EUROPEAN EQUITIES

Another week and another focus on AI as trend driver in one of the busiest weeks for earnings reports this year.

In a token of Europe's determination to give tech infrastructure a firm footing, **Mistral** unveiled a €1.2bn investment in data centres in Sweden. They are expected to be up and running in 2027. The AI theme also featured in logistics after news that freight forwarding software had been developed in only six weeks. AI disruption concerns circulated but traditional players still have significant structural advantages, especially if they are operating in ports and high value added services. AI is now also present in insurance. A ChatGPT application helps compare various policies, a development that could modify distribution channels and make clients more mobile. Ukraine remained centre stage in the geopolitical sphere. There is talk of presidential elections in May and a possible referendum on any peace treaty. Washington is pushing for an end of the conflict before the summer. European sovereignty was also a topic because of tensions over the €100bn Franco-German Future Combat Air System (FCAS). **Dassault Aviation** and **Airbus** are vying for industrial leadership of the project, a sign that a genuinely unified approach to strategic integration is complicated.

This week's earnings reports varied according to sectors. In technology and IT services, **Capgemini** had a better fourth quarter than expected. Visibility for 2026 improved thanks to AI bookings which now represent 10% of new orders. In contrast, **Dassault Systèmes** disappointed investors with cautious guidance which suggested no major improvement for next year. **STMicroelectronics** reinforced its partnership with AWS via a multiyear contract aimed at boosting the US giant's cloud infrastructure and data centres. Results at Holland's **Adyen** (payment systems) missed expectations and guidance also fell short despite news of reinforced partnerships with Uber and Starbucks in Europe. Results in luxury and consumer sectors were mixed. Figures from **Hermès** provided confirmation that momentum was strong both across segments and geographical zones while **L'Oréal's** Northern Asian performance was disappointing. **Unilever** beat expectations with volumes finally rising 2%. In industry and energy, **Michelin** unveiled a €2bn share buyback programme, **Safran** raised guidance for 2026 and 2028, **Siemens Energy** reported first-quarter free cash flow that was three times higher than expected and **GTT** has now taken in 24 new orders for tankers since January 1st. **Sanofi's** top management changed. Paul Hudson, its CEO, was replaced by Belén Garijo, a former Merck employee.

US EQUITIES

Wall Street lost ground as fresh risk aversion fuelled doubts over large growth stock leadership. The S&P 500 shed 1.4. its biggest weekly drop since November 2025. The Dow was down 1.3% while the Nasdaq underperformed by ending 1.55% lower. The Russell 2000

abandoned 2%. Tech and AI had lifted indices to start the week but the end of the period saw investors rotating towards defensive sectors as volatility rose.

Precious metals continued to see-saw. Gold briefly rose above \$5,100 before falling back below \$5,000. These movements reflected both a search for safe havens amid geopolitical and budget uncertainties and also profit taking after a strong rally. Macro data bolstered the economic normalisation scenario with consumption running out of steam and the labour market holding up. Several Fed members (Hammack, Logan, Schmid and Miran) remained cautious, arguing for close-to-neutral monetary policy but no acceleration in rate cuts as long as the trend towards 2% was not clear enough. In the background, budget and trade debates -a deficit expected to come in at 5.8% of GDP and tensions over Iran tariffs- fuelled political and geopolitical uncertainty.

In sector developments, the week saw mounting concerns over AI disruption and doubts over the sustainability of some traditional business models. Financials, for example, tumbled 4.7% with brokers, asset management companies and insurance brokers faring the worst. **Marsh & McLennan** shed 6.3%, **Aon** 8% and **Arthur J. Gallagher** 15.2% on worries that traditional broking profitability would be hit by increasing use of AI-driven advisory, pricing and risk-management solutions. Healthcare was down 1.1% with selling focusing on Contract Research Organisations (CROs) and some wholesale distributors on fears of disruption in clinical research and data collection/processing activities. Industrials edged 0.25% lower but there were some marked falls in logistics and haulage companies. **CH Robinson**, for example, plunged 16.4% and several similar stocks also sold off. Markets expect to see increased pressure on traditional intermediation models. Increasingly powerful freight optimisation tools using AI could eventually boost competition within the sector.

As a result, investors began to rotate towards more defensive segments offering better visibility and returns and less exposure to technology disruption. Utilities gained 4.4% and listed property 2% as long bond rates eased by 10bp over the week and investors looked for recurring revenues. Consumer staples rose 1.4% as the sector is less sensitive to the cycle and AI disruption and so is seen as resilient. Materials were up 2.6% and energy ended the period 1.4% higher on a move away from large, over-owned growth plays and into stocks seen as offering more medium-term visibility.

EMERGING MARKETS

The MSCI EM index gained 4.26% in USD this week. Korea, Taiwan, Brazil, China, Mexico and India were up by 10.79%, 7.51%, 3.30%, 1.28%, 0.89% and 0.75% respectively

In **China**, CPI rose 0.2% YoY in January after an increase of 0.8% in December, or below the forecast of 0.4%, while PPI declined 1.4%, or slightly better than the estimate of -1.5%. In the AI race, new models were released before the Chinese New Year from **DeepSeek** V4 and **Knowledge Atlas** GLM 5, while **ByteDance** is reportedly in talks with **Samsung** to develop an AI inferencing chip. **NetEase**'s fourth-quarter results missed expectations due to a high base and more games with longer revenue recognition. China's Long March 10A first stage achieved a successful splashdown.

In **Taiwan**, the economy grew 12.65% YoY in the fourth quarter and by 8.68% for the full year, both as expected. The US and Taiwan signed a trade deal to cut tariffs on Taiwanese exports to 15% and boost market access for American products, with Taiwan pledging to purchase

more than \$44bn worth of LNG and crude oil from the US. **TSMC**'s board approved a capital injection of up to \$30bn in favour of TSMC Global to reduce foreign exchange hedging costs.

In **Korea**, **Samsung Electronics** sent the first commercial shipments of HBM4 to customers. **LIG NEX1**'s 2025 operating profit rose 44.5% on strong missile exports, though fourth-quarter operating profit fell 33% YoY to 42.1 billion won.

In **India**, the government unveiled a new CPI series with a 2024 base year, with January retail inflation coming in at 2.75%, compared to 1.33% in December on the previous base. Sweden's **SAAB** proposed to the Indian Government the creation of the world's most advanced aerospace industry, comprising multilayered design, production and maintenance as well as induction of fighter jet Gripen E. **Coal India**'s third-quarter profit plunged 16% as the world's biggest miner grappled with a glut that bloated its inventories due to subdued demand for electricity. The **State Bank of India** reported record profits, up 24.48% YoY, beating estimates, driven by strong loan growth and healthy net interest margins above 3%

In **Brazil**, foreign direct investment in telecommunications reached \$7.44bn in 2025, a 20.4% increase compared to the previous year. The government began the process to auction the concession contract for passenger trains in the Recife metropolitan region; it is expected to generate investments of almost 3.5 billion reais (\$675m) over a 30-year term. Brazil signed a memorandum of understanding with India on critical mineral cooperation. **Banco do Brasil** reported earnings 35% above consensus due to lower taxes. Management's guidance indicated a better year for its agribusiness portfolio. **Vale** also reported better results driven by base metal business earnings, net debt reduction and 9% FCFY.

CORPORATE DEBT

Markets remained volatile while trending higher but credit markets were serene, underpinned by negative correlation with interest rates (EUR IG +0.25%; EUR HY +0.08%; Corp Hybrids +0.32%; CoCos +0.18%). Macro data had only a limited impact. Upbeat labour market data in the US still points to an economy in good health.

AI's influence was reflected in mega deals to fund the required infrastructure. Over the last fortnight, **Oracle** and **Google** have together raised \$45bn on bond markets. Google, interestingly, sold a 100-year sterling tranche. Combined demand for the issues amounted to \$250bn. These dizzy figures showcase the strength and depth of public credit markets at a time when private credit is stealing the headlines. Hybrid debt issuance was also active. Swedish property company **Hemso** made its market debut, **Stellantis** announced a €5bn deal and there were subordinated deals from **BNP** (EUR AT1), **Intesa** (EUR AT1 in 2 tranches) and **Fidelidade** (Tier 2). High yield issuance, however, marked a pause this week.

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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