



MARKET FLASH: HOPES RISE FOR A SOFT LANDING

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- *With the fallback in inflation and the Fed's monetary pause, we raised exposure to risk assets as the slowdown is very gradual.*

Following the reassuring inflation data, central banks and markets want to believe a soft landing is possible.

The Fed minutes confirmed that the committee had opted for a lengthy pause in hikes and that they would rely heavily on economic data before deciding on a fresh move. Disinflation is ongoing but the Fed wants to tread carefully before deciding on any rate cut. The issue seems to be more a question of timing and the size of a cut rather than the direction of travel.

Jeremy Hunt, the UK's Chancellor of the Exchequer, is also betting on disinflation continuing. He even managed to surprise the market with a pro-growth budget that included cuts to social contributions and corporation tax. It is estimated the moves will boost growth in 2024 by 0.3% and help avoid recession.

However, the European Commission is worried about budgets running out of control and is arguing for a quick end to energy bill relief. It also warned four countries including France that their deficits were too high. That said, this call to respect budgetary rules could fall on deaf ears as Germany has just suspended its debt ceiling for the 4th year in a row. Berlin will probably raise spending to underpin growth.

Elsewhere, the Middle East risk premium has fallen significantly and the Israeli shekel and oil prices are now below levels prior to the October 7 attack by Hamas. The drop in oil prices was even amplified after OPEC + unexpectedly postponed its November 26-30 summit due to temporary disagreements on production cuts.

Trading was calm over the period but there were signs markets were optimistic over the possibility of a soft landing.

With the fallback in inflation and the Fed's monetary pause, we raised exposure to risk assets as the slowdown is very gradual. In fixed income, we are still keen on duration as it should provide protection as inflation and growth retreat and instability in the Middle East continues.

EUROPEAN EQUITIES

Markets ended the period higher thanks to signs that inflation was finally slowing.

Oil prices fell further after OPEC+ postponed its meeting. Saudi Arabia takes a dim view of the drop in Brent crude prices and wants the cartel to cut production.

Meanwhile, the mood soured a little after European PMIs contracted and a rebound in government bond yields pushed Germany into suspending its debt brake.

This still left markets higher but performance was more varied than in the previous week. Cyclical, and especially media, performed well with Relx and Wolters Kluwer leading gains. Autos, in contrast, were down due to soft demand and competition from China.

Bayer sold off after stopping its Oceanic-AF phase III trial for its anticoagulant Asundexian for patients at high risk of suffering strokes. The group said results were inferior to its rival made by Bristol-Myers Squibb. Bayer's drug was expected to be a blockbuster so investors were disappointed.

Elsewhere, **Novo Nordisk** is to invest €2.1bn at its Chartres production site to meet demand for its anti-obesity drug Wegovy. This takes the group's global investment drive for Wegovy production to €10bn.

Half-year results to end September at **Laurent Perrier** rose to a solid €158.4m and EBITA was €57.4m (+8.1%). The EBITA margin increased by 4.3 points to 37.4%. Volumes sold tumbled 12.8% but were offset by a 9.6% price increase which boosted profitability even if the net result was hit by high financial charges.

Freelance.com, which connects clients to consultants, had a complicated third quarter as growth slowed in France and demand fell across all sectors. Sales were flat at €198.6m but management said it was confident growth would return to group targets in 2024.

Kingfisher, which owns Castorama and Brico Dépôt, was hit by soft consumer spending. The group once again reduced earnings guidance, citing a decline in spending on home improvements. The stock fell sharply.

US EQUITIES

In a short Thanksgiving-holiday week, artificial intelligence hit the headlines. After several twists and turns, Sam Altman returned to **OpenAI** as managing director and a new board led by Bret Taylor (CEO, **Salesforce**) and former Treasury Secretary Larry Summers is to be appointed. This followed threats by most of OpenAI's staff that they would resign. At the same time, **Microsoft** CEO Satya Nadella urged Open AI to make significant changes to governance.

Elsewhere, the FOMC minutes showed the bank unsurprisingly erring on the side of caution over future rate hikes.

In this week's macro data, sales of existing homes in October fell back to August 2010 lows. They have now fallen 40% since their January 2022 peak.

WTI fell another 1% to \$76.40 as the OPEC+ summit was postponed due to disagreements over production cuts.

In company news, results at **Nvidia** once again beat and guidance for the current quarter matched estimates but the stock slipped 1% on concerns over the group's comments on sales in China. The group then said that restrictions on exports to China would have no impact as there were other markets ready to step in.

In bank news, Reuters claimed that restructuring was in the pipeline. **Citigroup** is reportedly preparing to shed several thousand jobs and reshuffle its management structure. **Barclays** is also said to be ready to cut 2,000 jobs.

JAPANESE EQUITIES

The NIKKEI 225 and TOPIX indices edged 0.08% and 0.40% higher in a range-bound week ahead of Japanese and US holidays. Intraday, the Nikkei 225 revisited its year high. Volatile USD/JPY trading also fuelled investor concerns.

Marine Transportation and Pulp & Paper rose 5.71% and 3.38% as investors bought value stocks which are seen as unaffected by a strong yen. Insurance gained 2.69%, led by **Tokio Marine Holdings** (+6.25%), Japan's largest non-life insurer, after it revised up net profit guidance for this year from its already record high and also announced share buybacks. On the other hand, Transportation Equipment and Rubber Products fell by 4.23% and 1.55% on profit-taking amid yen strength. Wholesale Trade shed 1.70% as investors took profits after the previous week's gains.

Panasonic (electronic products) jumped 12.79% as investors cheered its decision to sell its automotive unit. **Nitori Holdings** (furniture and interior goods) gained 10.62% thanks to the strong yen. Elsewhere, **Asahi** (beverages) lost 6.58% on the news that 9 financial institutions were to sell large amounts of stock to overseas investors as a part of an unwinding of cross-shareholdings. **Suzuki Motor** and **Toyota** tumbled 6.46% and 5.23% on profit taking because of the stronger yen.

The dollar initially slumped to the low 147s on expectations US rates had peaked and unwinding of yen shorts ahead of Japanese and US holidays. It then rallied to the mid-149s following a rise in US bond yields.

EMERGING MARKETS

The MSCI EM Index was up 1.2% this week as of Thursday's close. China (+2.5%) rebounded, outperforming after last week's weakness. India edged up 0.2% while Taiwan and Korea advanced 1.3% and 0.9%, respectively. Brazil also gained 1.5% in total return thanks to Vale and Petrobras paying out dividends.

In **China**, the property sector continued to benefit from supportive measures: a list of 50 property firms, including Country Garden, eligible for funding was reportedly being drafted. Shenzhen cut down payments for 2nd home purchases from 70-80% to 40% for the lowest. Mastercard received approval to start its payment processing business in China via a JV. China also approved Broadcom's acquisition of VMware. Beijing also took extra steps towards opening up and facilitating more cross-border exchanges by scrapping visa rules for travellers from France, Germany, Spain, the Netherlands and Malaysia for up to 15 days. Company wise, **Baidu** reported a better-than-expected third quarter with early signs of Gen-AI monetisation while **Trip.com** beat estimates thanks to a stronger-than-expected recovery in domestic travel. **Jack Ma's** trust walked back its share sale as the **Alibaba** share price was viewed as trading far below its real value. **CATL** announced plans to list in Hong Kong to finance its overseas expansion.

In **Taiwan**, the proposed coalition between KMT and TPP to run against the incumbent and poll leader DPP fell apart, with KMT and TPP each launching their own rival bids for the

presidency. Terry Gou, **Foxconn's** billionaire founder, withdrew from the race after his pitch to act as a key intermediary between Washington and Beijing failed to excite voters.

In **India**, **Tesla** is to build a factory in India within two years. **Tata Consultancy Services** signed a pact with Australia's ASX for a clearing and settlement platform. 27 companies granted approval under the new production-linked incentive programme for IT hardware are expected to invest 30 billion rupees and create 200,000 jobs. Adobe acquired Indian generative AI start-up **rephrase.ai**. Tax authorities issued notices to **Zomato** and **Swiggy** for GST (goods and services tax) on delivery fees. At its analyst day, **Axis Bank** reiterated that initiatives to improve deposits were paying off. Asset quality was stable and an ROE of 18% could be sustainable. October's credit card statistics confirmed the festive season had been good with industry spends up 38% YoY and 25% MoM.

In **Brazil**, **Anima** confirmed a non-binding proposal for **Universidade Sao Judas**. **Bradesco** changed its CEO. **Petrobras** announced a 31% increase in its five-year investment plan in a major shift away from its cost-control strategy.

In **Mexico**, November's inflation data showed that core inflation continued to decrease. **Fibra Uno** announced the spin off and IPO of its real estate investment trust Fibra Next and reinforce its nearshoring focus.

In **Argentina**, Javier Milei won the election and the stock market rose. The President-elect Milei said the country needed shock fiscal therapy. All eyes are now on who will be in his cabinet.

CORPORATE DEBT

CREDIT

In a relatively stable week for investment grade bonds, spreads remained around 145bp. High yield, on the other hand, saw spreads improve by 10bp to 430bp. After breaking below 400bp in the middle of November, the Xover pushed even lower to a year low of 375bp. For government bonds, the recent rally marked a pause and yields on the 5 and 10-year German Bund gained 5bp to 2.32% and 2.66%, respectively.

Despite the Thanksgiving holiday, new non-financial deals continued as companies took advantage of recent interest rate and spread falls to refinance. These included **Ford** 5.12% 2029 BBB- for €750m, **IHG** (intercontinental hotels) 4.375% 2029 BBB- for €600m and **Ericsson** 5.375% 2028 BBB- for €500m.

In financials, the week got off to a good start with a surprise decision by Moody's to stick with its outlook for Italy's debt and upgrade Portugal on both counts. Several bank upgrades followed, boosting valuations. And then **Santander** called its euro-denominated AT1 after failing to do so in September. This followed last week's successful sale of 5 and 10-year tranches at 9.625%. The upbeat mood on markets led to CoCo spreads falling by around 30bp but the new issues market was less active in the run-up to Thanksgiving. However, **Eurobank** sold a 2029 senior preferred bond due 2029 at 5.87%.

Investment grade fell 0.16% due to interest rate pauses, leaving YTD returns at 4.05%. High yield gained 0.31% (+7.9% YTD) thanks to narrowing spreads. Actuarial yields for investment grade were 4.3% and 7.3% for high yield, still good entry points for carry strategies.

CONVERTIBLES

Markets edged higher in relatively calm trading after two weeks of strong rebounds. A total of \$3bn was raised on an active new issues market.

In the US, **Uber Technologies** refinanced its 2024 convertible with a 2028 maturity, raising \$1.5bn at 0.875% and a 32.5% premium. The issue was a big success with investors.

There were three deals in the EMEA zone. **Schneider Electric** raised €650m due 2030 at 1.97% and with a 42.5% premium but the company had to reduce the deal size from its initial €750m and improve pricing to convince investors to subscribe.

A new **Rag-Stiftung** exchangeable into **Evonik** raised €500m due 2030 at 2.25% and a 20% premium. The convertible has a 2028 put option at par. The group also bought in €450m-worth of its 2024 convertible at 97% and €50m-worth of its 2026 convertible at 94%.

South Africa's **Sybanie Stillwater** (gold, palladium and platinum mining) raised \$500m due 2028 at 4.25% and with a 32.5% premium. The stock fell heavily on news of the deal but rebounded the following day.

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.
- Markit publishes the Main iTraxx index (125 leading European stocks), the HiVol (30 highly volatile stocks), and the Xover (CrossOver, 40 liquid and speculative stocks), as well as indices for Asia and the Pacific.
- 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.

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