EDMOND DE ROTHSCHILD

EDMOND DE ROTHSCHILD ASSET MANAGEMENT

MARKET FLASH: US ASSETS SEE A WEEK OF STABILISATION

- **Jerome Powell confirmed that the Fed would proceed with a rate cut in September while paying more attention to jobs data than inflation when deciding on monetary policy changes over the short term.**
- **The eurozone was penalized by the return of political risk in France, where Prime minister François Bayrou's vote of confidence could bring down the government on September 8.**
- **Japan and emerging countries saw a fall in asset prices, due to profit taking and news on the US import duties.**

US assets stabilised following a sharp rise prompted by Jerome Powell's speech to the Jackson Hole symposium. He confirmed that the Fed would proceed with a rate cut in September while paying more attention to jobs data than inflation when deciding on monetary policy changes over the short term. Meanwhile, Donald Trump stepped up his efforts to take control of the Fed with a letter telling Fed governor Lisa Cook that she was sacked. For investors, this means a more accommodating monetary stance is now more probable and it explains some of the retreat in interest rates. But the dollar started to fall again, especially against the euro, as worries over the Fed's credibility rose. Equities, however, were unfazed: the S&P 500 returned to all-time highs and small and medium caps gained from lower interest rates. Nvidia's figures held fewer positive surprises than in the last two years, but the results were still good and the stock's initial fall was very quickly cancelled out, thanks to the message from Nvidia that AI demand was still robust.

Trends in other geographical zones were more volatile. The eurozone fell after political risk resurfaced in France. Prime minister François Bayrou announced a confidence vote in his government on September 8 and there is a good chance that he will lose. He now wants to start talks with other parties but all parties outside the current coalition said they will vote against the motion. If the government falls, President Emmanuel Macron will most likely appoint a new prime minister but we cannot rule out a dissolution of parliament and fresh elections. OAT-Bund spreads widened to levels close to last December's highs with Bund yields falling and OAT yields rising. French equities largely underperformed over the week and dragged down the rest of eurozone countries. Domestic plays were hit with banks losing the most ground. Banks were also down because Italy might introduce new taxes.

The rest of the world (Japan and emerging countries) also saw a fall in asset prices. Some of this was due to profit taking but news on the US import duties front also played a part. 50% tariffs came into force for Indian exports to the US while Mexico, which is preparing its 2026 budget, might raise customs duties on imports from China and other Asian countries.

Equity indices are trading at demanding multiples, the US is expensive and investors are overstretched, especially CTAs and especially in the US, so we are sticking with our cautious

view on equities, and particularly US equities. We are still neutral on duration and continue to prefer carry strategies.

EUROPEAN EQUITIES

After close to a month of strong returns, European indices fell sharply this week as France's political situation rekindled uncertainty. Prime minister François Bayrou's confidence vote on September 8 already looks like a lost cause. All the main opposition parties have said they will vote against. If the government falls, President Emmanuel Macron will have to appoint a new prime minister. Holland added to European uncertainty after several ministers resigned, putting the ruling coalition in danger.

Elsewhere, ECB chair Christine Lagarde spoke up after several attempts by Donald Trump to meddle in the Fed's monetary policy decisions. She warned against any attacks on central bank independence, a key element she said in maintaining economic stability.

In company news, **Orsted** remained under pressure after the Trump administration suspended Revolution Wind, its offshore wind turbine project, citing national security. The decision heightens uncertainty over the group's financing and increase of capital while uncertainty over future federal permits will hit visibility up to 2027.

UniCredit confirmed that it now held 26% of **Commerzbank** so the stake will now be included in the Italian bank's consolidated accounts. After withdrawing its bid on **Banco BPM**, the increased stake in UniCredit and a similar move in Greece's **Apha Bank**, UniCredit is still interested in M&A.

Pernod Ricard's 2025 results were slightly better than expected. Margins were solid and cash flow higher than the market expected but the group remained cautious on the start to its FY 2026 which it sees as a year of transition.

Delivery Hero reduced guidance for 2025 partly because of sales suffering from exchange rates. Tech stocks traded in line with news in the US. In semiconductors, **Nvidia** is running the show. The group's disappointing figures in its data centre divisions, dragged down European players like **ASML**, **BESI** and **Infineon**.

Eiffage's half-yearly results were mixed; EBIT fell slightly short of consensus expectations but net profits beat. The group reaffirmed its annual guidance but France's uncertain political scene will remain the main short term risk.

US EQUITIES

As of Thursday's close, the S&P 500 had gained 0.54% to hit a new record above 6,500 and the Nasdaq 100 was up 0.87%. The momentum behind the rise came from second-quarter GDP being raised from 3% to 3.3%, a sharp drop in jobless claims and the strong probability that the Fed would proceed with a first cut to Fed Funds in September. Even so, the Fed's independence remained in doubt after a strong rise in household inflation expectations and Donald Trump's decision to fire Fed governor Lisa Cook.

In the tech space, **Nvidia'**s results beat expectations but the market is still cautious given the stock's demanding levels and persistent uncertainty over China. Among consumer plays, **Dollar General**, **Burlington** and **Five Below** all raised guidance while **Urban Outfitters** and **Hormel** were affected by rising tariffs and higher commodity prices.

In industrials, **Boeing** won an order from **Korean Air** to buy 103 planes.

Several M&A deals provided some action as did the arrival of **Interactive Brokers**, an online service, in the S&P 500 index where it replaced pharmacy store chain **Walgreens**.

EMERGING MARKETS

The MSCI EM index was down 0.40% in USD this as of Thursday's close. Brazil, Taiwan and Korea advanced 2.81%, 1.91% and 0.51%, respectively. India, China and Mexico declined by 2.11%, 1.07% and 0.73%.

China's industrial profits fell by 1.1% YoY, while revenue rose by 1.0% YoY in July (vs. -4.4% YoY and +1.5% YoY in June). The State Council issued a document entitled "Opinions on Deepening the Implementation of the 'Artificial Intelligence Action Plan". Beijing sent a senior trade negotiator to meet US officials. The authorities approved 166 domestic and 7 imported online games in August. **PDD** reported better-than-feared results while the outlook for future earnings was weak as it is expected to continue increasing investment. **Trip.com** delivered a strong revenue and margins beat in the second quarter and announced a new share buyback. **Meituan** reported a significant miss on fierce competition and guided for continued competition. The Pinault family is in talks with Anta and Li Ning for a potential sale of **Puma**.

In **Taiwan**, July industrial production rose 18.11% YoY, or ahead of the 17% increase expected. **TSMC** will eliminate the use of Chinese chip-making equipment in its latest 2-nanometer chip production lines to avoid any potential US restrictions

In **Korea**, the Central Bank held the base rate unchanged at 2.5%. **Hyundai Motor** Group plans to increase its investment in the US to $26bn up to 2028. Korean Air ordered $36.2bn worth of aircraft from Boeing.

In **India**, July industrial production rose 3.5% YoY, or ahead of the 2.2% expected. Additional tariffs of 25% took effect on August 28, pushing overall duties to the US up to 50%. The Group of Ministers cleared a new goods and services tax (GST) regime of 5 and 18 per cent, scrapping the 12 and 28 per cent slabs. PM Modi held a meeting with former Japanese PM Yoshihide Suga in Tokyo to focus on cooperation on AI and semiconductors. **Suzuki Motor** plans to invest over $8bn in India to manufacture EVs. All eyes are on PM Modi's meeting with President Xi Jinping in Shanghai this weekend.

In **Brazil**, July inflation rose 4.95% YoY as expected. **Eris Lifesciences** in India received approval from Brazil's national health regulatory agency ANVISA for its manufacturing units in Ahmedabad.

In **Mexico**, second-quarter GDP was up 0.6% QoQ as expected. Biweekly CPI in August increased 3.49% YoY, or less than the 3.63% expected. The Federal government plans to invest $42.8m to build two solar-powered plants. The government announced their intention to increase import tariffs for Chinese products (but with no product specification yet).

CORPORATE DEBT

CREDIT

Corporate debt markets have so far brushed off most of the concerns over political developments in France. The decision by Prime Minister François Bayrou to go for a confidence vote dragged the CAC 40 0.8% lower and sent OAT yields up 8bp to 3.50% but investment grade and high yield returns were flat over the same period.

The financial situation of many European companies is in no way comparable to the fiscal trajectory of countries like the UK and France. Corporate debt market volatility since the beginning of this year has on average been only a third of that of government bonds.

As a result, many investors have switched from government to corporate bonds. **JP Morgan** said that this week had once again seen inflows to investment grade and high yield bonds ($765m and $125m, respectively).

Current EUR yields have money market funds at 2%, IG at 3.1% and HY at 5%; these are still very attractive yields compared to the last 10 years (80th percentile).

The primary market slowly reopened after the summer break with refinancing deals from **Legal & General**, **Badler** and **Air France**.

In company news, S&P downgraded **Worldline** from BBB- to BB but the move was largely factored in and the company's 2030 bonds traded at 87 for a yield of around 9%. In telecoms, **Iliad** once again reported excellent figures with a sharp rise in second-quarter profitability despite growth slowing in France. The group said it was still interested in buying parts of **SFR** but had decided to abandon plans to tie up with **Telecom Italia**.

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.

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29/08/2025

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Société anonyme governed by an executive board and a supervisory board with capital of 11.033.769 euros

AMF Registration number GP 04000015

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