



EDMOND DE ROTHSCHILD ASSET MANAGEMENT

MARKET FLASH: UNCERTAINTY PREVAILS

- **US-China trade tensions have flared up again, following China's announcement to tighten controls on exports containing more than 0.1% Chinese rare earths, while Donald Trump riposted by threatening additional 100% tariffs on Chinese products from November.**
- **In France, the new prime minister Sébastien Lecornu managed to escape two no-confidence votes after suspending pension reform. The new government will now face a debate on the budget and it hopes to keep the deficit below 5%.**
- **The US shutdown has deprived the Fed of statistics so it has to use regional Fed activity reports and they suggest economic stagnation and declining employment.**

This week's headline event was a resumption in US China trade tensions. China said it was increasing controls on exports with more than 0.1% of Chinese rare earths, reinforcing requirements on export licences targeting the US defence and semiconductor sectors and introducing new port duties on US ships. Donald Trump riposted by threatening additional 100% tariffs on Chinese products from November. Markets, however, seem to think a compromise will be reached before the truce on tariff application ends on November 10. Meanwhile, the EU is thinking about forcing Chinese companies based in Europe to transfer their technology to local companies and also wants to increase requirements to use European products, especially in the auto industry

In France, the new prime minister Sébastien Lecornu managed to escape two no-confidence votes by securing the support of the Socialist party after suspending pension reform and abandoning the 49.3 guillotine clause. The first motion failed by 18 votes. The new government will now face a debate on the budget and it hopes to keep the deficit below 5%. Markets were relieved to see a dissolution of parliament had been postponed. In Japan, however, the decision by the Komeito party to exit its historic coalition with the PLD could result in a new prime minister from the PDP opposition party if the three parties agree. That would mean appointing Yuichiro Tamaki. If so, the country could adopt a more expansionary budget and see fewer central bank rate hikes.

Oil prices continued to retreat after a temporary rise based on news that India might bow to US pressure and reduce its exports of Russian oil. India had not confirmed the rumour.

The US shutdown has deprived the Fed of statistics so it has to use regional Fed activity reports and they suggest economic stagnation and declining employment. As a result, Jerome Powell opened the door to new rate cuts to come and the possibility of monetary easing from halting the Fed's Quantitative Tightening programme. Michigan University's one-year inflation gauge fell from 4.7% to 4.6% while the 5-10 year measure was unchanged at 3.7%. The Philly Fed's survey on small companies and business prospects fell from 100.8 to 98.8 and from 23.2 to minus 12.8, respectively.

European indicators also decelerated with the Zew report on eurozone expectations falling from 26.1 to 22.7 and industrial production down from 2% to 1.1%.

Positive news on the Fed's expected monetary easing and upbeat company reports was offset by worries over US regional banks. Two of them said they had been victims of loan fraud involving amounts invested in troubled commercial mortgages.

Given today's prevailing uncertainty, we are still cautious on risk assets and US equities in particular. We remain upbeat on duration, and notably emerging country debt, and are focusing on higher-rated companies.

EUROPEAN EQUITIES

After losses from mounting trade tensions, European equities revived thanks to generally upbeat quarterly results and increased chances of the Fed cutting rates. Easing political risk in France also lifted sentiment. However, at the end of the period, investors started to fret about bad loans in the US after regional banks showed signs of weakness.

Despite the troubled geopolitical and economic situation, all **LVMH** divisions apart from Beauty, beat expectations. **Nestlé** also reassured investors as its ongoing strategy continued to deliver results. The group's new CEO Philipp Navratil reaffirmed medium-term objectives with higher dividend payouts and clear indications the group was returning to operational discipline. Efforts to cut costs are to be stepped up with a 6% cut in the workforce. **EssilorLuxottica** beat expectations with a 11.7% jump in sales, a sharp acceleration on second-quarter performance. This was mainly due to strong demand for AI glasses, strong growth in Vision Care and sunglasses and a more favourable comparison basis. **ASML's** third quarter results were in line. Orders were better than expected and weak demand in China was offset by stronger deliveries of extreme ultraviolet (EUV) lithography systems elsewhere. Third-quarter revenues at Publicis were higher than expected and management again raised like-for-like targets thanks to continued strength in demand. AI is a growth driver and the group continues to win market share. Even chemicals group **Croda** provided some reassurance on the sector and the impact of trade tensions.

In contrast, **Michelin** sold off after issuing a profits warning. The group cited difficulties in North America due to weaker demand and the increasing impact of tariffs. **Pernod Ricard** also saw declining first-quarter sales in the US and China.

Bouygues Telecom, Iliad and **Orange** made a joint, non-binding offer for most of Altice's French businesses.

US EQUITIES

Wall Street ended the period sharply higher with the S&P 500 up 1.17% and the Nasdaq 1.80% better. After last Friday's sell-off on a surge in tensions between Washington and Beijing, investors decided to buy the dip, a position underpinned by solid company figures and the Fed's continued accommodating stance. The US remained in shutdown for the third week. After threatening to levy 100% duties on Chinese imports, Donald Trump said a compromise was always possible. He also announced a summit meeting with Vladimir Putin in Budapest to discuss a peace plan for Ukraine.

Major US banks kicked off the earning season by beating expectations. Results at **JPMorgan, Citigroup, Wells Fargo, Goldman Sachs, Morgan Stanley** (+5.39%) and **Bank of America** (+3.68%) were boosted by record investment banking revenues and strong lending. AI once again dominated technology sector developments. **Broadcom** surged 9.09% after agreeing on a strategic partnership with **OpenAI** to develop 10 GW chips for data centres. **ASML** jumped 6.24% on better-than-expected orders due to advanced lithography demand and **TSMC** (+6.84%) reaffirmed its positive outlook for the semiconductor cycle. In the consumer sector, **Walmart** (+4.57%) unveiled a ground breaking project with **OpenAI** to help people buy directly using ChatGPT. Elsewhere, **Caterpillar** (+10.10%) benefited from a broker price target upgrade. In healthcare, **Omeros** (+134.61%) and **Praxis Precision** (+205.50%) soared after major clinical announcements, while safe haven gold hit a new record at \$4,200/oz.

The week ended on a note of concern after regional bank **Zions Bancorp** reported a \$50 million loss on two exposures, representing 5% of its 2025 annual profits. The market, already nervous about consumer and private credit, saw sentiment deteriorate, leading to a spiral of mistrust. The regional bank index fell 6% following the announcement, without distinguishing between players in the sector.

EMERGING MARKETS

The MSCI EM index had advanced by 0.98% in USD as of Thursday. Korea, Mexico, India, Taiwan gained 7.50%, 2.96%, 2.46% and 1.29%, respectively. China and Brazil were down by 3.76% and 1.14%.

In **China**, September PPI fell as expected by 2.3% YoY while CPI edged 0.3% lower, or slightly more than the 0.2% decline expected. Core CPI, which excludes volatile items such as food and energy, rose to a 19-month high of 1% YoY. September exports and imports rose 8.3% YoY and 7.4%, respectively, or ahead of estimates of 6.6% and 1.8%. This took the trade surplus to \$90.45bn, or below expectations of \$98.05bn. Shipments to the US plunged 27% YoY in September, the sixth month of double-digit declines, but the slump was offset by strong growth in sales to regions like the EU. New loan growth in September came in at RMB 1.29 trillion, or softer than the RMB 1.39 trillion forecast. Trade tensions between the US and China escalated as Donald Trump threatened to hit exports of Chinese cooking oil as a payback for the soybean boycott and Beijing's recent tightening of rare earth rules, just weeks before the APEC leaders meet. The EU is looking into enforcing rules on Chinese firms to transfer technology and use EU goods or labour to operate locally. China is expected to discuss and publish its 15th 5-year Plan in the coming weeks during the 4th Plenum of the Central Committee of the CCP.

In **Taiwan**, TSMC reported a third-quarter beat on better margins thanks to a higher utilisation rate and raised guidance for top line growth and capex for this year. TSMC's 2nm and advanced packaging capacities are fully booked as 2nm nodes have entered the pilot/verification phase, with yield rates exceeding 70%.

Korean exports for the first 10 days of October fell 15.2% YoY, while imports were 22.8% lower. The Export Price index increased 2.2% YoY in September and the import price index was up 0.6% YoY. **Samsung** reported its biggest quarterly profit in more than three years, with a 32% rise in operating income for the September quarter.

In **India**, headline CPI fell to a record low of 1.5% YoY in September, driven by continued food deflation. However, core inflation rose to 4.5% YoY, led by gold prices. September exports

rose 6.8% YoY, while imports increased by 16.7% YoY. Prime Minister Modi unveiled two programmes worth \$4bn aimed at improving farm productivity, promoting crop diversification, and reducing India's dependence on pulse imports. **Google** announced an investment of \$15bn over five years to set up an AI data centre in partnership with **Airtel** and **Adani group**. **Hyundai Motors** will invest \$5.4bn by FY2030 in India in a bid to gain domestic market share and create an export hub. **HCL** reported a good quarter with a beat on top and bottom lines while narrowing revenue guidance towards the top end. **Infosys'** quarter was in line with guidance implying a slowdown in the second half. **Axis bank** reported ahead of system loan growth and improving asset quality. **Nestlé** had a solid quarter with double digit top line growth.

In **Brazil**, August retail sales rose 0.4% YoY vs. expectations of 0.2%. August economic activity was also up 0.4% YoY but below estimates of 0.7%. **Eletrobras** announced the sale of its Eletronuclear stake for RS\$535m. India's Petroleum minister held discussions with Brazil's vice president on strengthening and expanding an energy partnership between the countries. Brazil's government is to meet the US energy secretary later this month to discuss critical minerals.

In **Mexico**, August industrial production for August fell 3.6% vs expectations of 2.0%. The Senate advanced on a reform bill to modernize customs law. **Grupo Coppel** launched a new version of its e-commerce platform. **Delta Air Lines** and **Aeroméxico** appealed against a US order to dissolve their joint venture

CORPORATE DEBT

Investment grade returned 0.4% over the week (+3.5% YTD) while High Yield and CoCos both gained 0.2% (+4.4% and +7.3% YTD, respectively). New issuance continued across all credit segments with take-up going reasonably well and bonds trading on the break around the reoffer. Spanish casino group Cirsa (BB-), for example, sold a 2031 maturity at 4.875% and traded at 100.30 on the secondary market.

Spread decompression continued with defensive and higher-rated issues still on form while CCC/B- segments and chemicals continued to fall back.

As mentioned before, banks kicked off the earnings season with upbeat figures from JP Morgan and Morgan Stanley and raised guidance. In Europe, luxury giant **LVMH** and **ASML** (semiconductors) also reassured investors.

In telecoms, the **Bouygues/Orange/Iliad** consortium made a bid for **SFR**. SFR's bonds rose on the news as they have change-of-control put rights at 101%. The bonds are currently trading at 94%. There are other refinancing deals due before the year end from **Eutelsat** and **Ubisoft**.

The latest indications from Fed chair Jerome Powell suggest more rate cuts are on the way. The bank is expected to cut rates by 25bp on October 29.

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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EDMOND DE ROTHSCHILD ASSET MANAGEMENT (FRANCE)

47, rue du Faubourg Saint-Honoré 75401 Paris Cedex 08

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332.652.536 R.C.S. Paris