EDMOND DE ROTHSCHILD

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MARKET FLASH: INCREASINGLY INTENSE NEGOTIATIONS

- **Discussions between the U.S. and Russia on implementing the partial ceasefire in the Black Sea are hindered by Moscow's demand for lifted sanctions, maintaining inflation uncertainty related to grain exports.**
- **The U.S. plans to impose new tariffs of 25% on countries acquiring Venezuelan oil and auto imports, coinciding with a stricter immigration policy that may impact supply chains and economic growth.**
- **In Europe, positive effects from Germany's stimulus plan are reflected in a slight rise in the IFO business climate index, although mixed manufacturing PMIs indicate ongoing sectoral challenges alongside disappointing services indices.**

The week saw more top-level talks. Implementing the partial ceasefire in the Black Sea agreed between the US and Russia depends on the West accepting Moscow's demands to lift sanctions. Until that happens, uncertainty over inflation stemming from the agreement over grain exports will remain.

Trade talks are intensifying as we approach the start date for reciprocal rises in import duties. Donald Trump announced a new wave of 25% tariffs on countries buying Venezuelan oil and gas and also on vehicle imports to the US from April 2 and on spare parts from May 3. The US-Europe meeting on the subject hinges on a hope that the increases will be delayed. As well as import duties, the US also toughened its migration policy. 530,000 illegal immigrants are set to be deported, a combination of measures which could hit supply. Worries over higher inflation and slower growth will persist until some compromise is reached, one that will allow Donald Trump to fund his tax cuts without too much damage to the economy.

Amid this uncertainty, the Conference Board's consumer confidence index tumbled to 92.9, or more than the 94 expected. And US manufacturing PMI unexpectedly fell to 49.8 when analysts were going for 51.8. However, services PMI came in at 54.3, or much higher than the 51 pencilled in by the consensus.

In Europe, the German stimulus plan approved by the Bundestag helped underpin the IFO business climate reading which rose from 85.3 in February to 86.7 in March. And manufacturing was less negative than expected with the eurozone PMI at 48.7 when 48.2 was expected. Germany's manufacturing PMI remained in negative territory but rebounded to 48.3, or better than the 47 expected. That said, the improvement was probably driven by firms anticipating higher customs duties. Services, on the other hand, came in at a disappointing 50.4, or less than the 51.1 expected.

In the UK, the Labour government announced a series of budgetary efforts to fund an estimated £2bn a year in economic stimulus up to 2030. At the same time, social spending will be cut by £5bn. The announcements fuelled worries over the short-term impact on the economy and on the chances of rate cuts in the future.

EUROPEAN EQUITIES

PMIs for Europe's biggest countries improved markedly in March compared to February and more than expected by economists. Germany's manufacturing PMI came in at 48.3, up from 46.5. For Europe as a whole, the index moved above 50 to hit a six-month high. In addition, provisional inflation figures for March were lower than expected in France and Spain so the chances of the ECB cutting rates have risen. Despite these upbeat figures, Europe's markets trended lower as news in the US weighed on investor sentiment.

Donald Trump said an additional 25% levy would be added to the current 2.5% tariff on European vehicle and auto part exports to the US. Although this had been partly discounted in stock prices, European auto stocks fell by 2-4% on the news, led by **Stellantis** which has significant exposure to the US market. On the other hand, **Ferrari** gained ground after the group said it could raise prices by up to 10% although it admitted its operating margins might fall slightly.

In results news, Germany's defence company **Renk** released its results and guidance for 2025. The big surprise was bigger-than-expected cash flow generation. Management expects sales to rise 20% this year and that is before any acceleration in defence spending in Europe is factored in. The stock jumped more than 10% over the week and has more than doubled since January 1st.

Italy's **Prysmian**, the global leader in cables, paid $950m for **Channell** in the US. Channell is specialised in copper wire connectors and optical fibre management systems. At its investors day this week, Prysmian also announced its objectives for 2028. The scenario matched analysts' expectations. However, the stock fell 5% because the much-anticipated listing in the US has been put back.

US EQUITIES

US markets turned uncertain as the April 2 start date for new customs tariffs approached. The small/mid cap Russell 2000 was unchanged over the period while the S&P and Nasdaq edged 0.5% and 0.6% higher.

Donald Trump's tariffs are focused on the autos sector. The aim is to force companies to reshore production. Even US auto stocks suffered, with **Ford** down 1.1% and **General Motors** off 4.5%. **Tesla,** however, soared 15.1% despite the tariff fuss and sharp falls in sales of its cars in Europe.

In tech, news of possible tariffs on copper and chips fuelled uncertainty and triggered selling in **Nvidia** (-6%) and **Broadcom** (-9.7%). Even so, some *Magnificent 7* stocks rallied after several down weeks: **Meta** gained 2.8%, **Amazon** 3.3% and **Apple** 4.5%.

Consumer staples finished the week 2.1% higher. **Costco** gained 4.8%. **Dollar Tree** jumped 19.1% after selling its **Family Dollar** subsidiary for $1bn, albeit much lower than the $8.5bn it paid for it 10 years earlier.

Despite the prevailing economic and political uncertainty, the banking sector rose 1.7% as investors digested the Fed's announcements in the previous week. Utilities and healthcare, in contrast, shed 1.6% and 1%.

EMERGING MARKETS

The **MSCI EM Index** ended the period flat (-0.03%) in USD as of Thursday's close. India and Mexico were up 1.07% and 1.04%. Brazil, China, Korea and Taiwan fell 0.23%, 0.44%, 1.04% and 1.43%, respectively.

In **China**, Xi Jinping met over 40 global business leaders in Beijing where he argued for a transparent, steady and predictable policy environment. The authorities tightened rules on building new alumina plants in a bid to tackle overcapacity. Donald Trump suggested he would consider lowering tariff rates imposed on China in a bid to secure Beijing's support for a sale of TikTok's US operations to an American company. **BYD**'s 2024 results showed a volume-driven beat with revenue up 29% YoY and net income 34% higher. **Pop Mart** results beat high expectations driven by overseas business and the company raised guidance again. **Tencent** will invest €1.16bn to acquire a 25% stake in **Ubisoft**'s new unit, which carves out the most well-known IPs. **Xiaomi** announced a $5.3bn share sale to raise funds to expand its EV manufacturing capacity. **AstraZeneca** will invest $2.5bn in a new research centre in Beijing. **Alibaba** and **BMW** are to team up for future in-car AI projects. China's largest banks **ICBC**, **CCB** and **ABC** reported profit gains for FY24 as decreasing credit impairments offset narrowing margins.

In **Taiwan**, the unemployment rate for February was 3.35%, or in line with expectations. Industrial production for February jumped 17.91%, or slightly ahead of the 17.30% expected. The authorities are investigating eleven mainland companies, including SMIC, for the alleged poaching of high-tech talent. **Hon Hai** got its first major electric vehicle-making client in **Mitsubishi Motors**.

In **South Korea**, exports for the first twenty days of March grew 4.5% vs. 16% in the previous month. Retail sales rose 4.4 % YoY. A South Korean court overturned Prime Minister Han Duck-soo's impeachment. **Hyundai** will be investing $21bn to avoid US tariffs in sectors ranging from steel to robotics. Chip startup **FuriosaAI** rejected an $800m bid from **Meta**.

In **India**, March preliminary manufacturing PMI was 57.6 vs. 56.3 in the previous month while services PMI was 57.7 vs. 59.0. Bank credit grew 11% YoY in February. **RBI** announced revised priority sector lending norms, providing credit disbursal relaxation in areas like agriculture credit, housing and weaker sections. The government will withdraw the 6% equalisation levy introduced in 2016 on some online advertisement services. **Zepto** is in talks to raise $250m via a secondary share sale before its IPO. NCLT approved the demerger of **Siemens Energy India**. **Toyota** will set up its first R&D centre in India.

In **Brazil**, IPCA-15 Inflation rose 0.64% MoM, or less than the 0.7% expected. The current account deficit for February was $8.7bn vs. expectations of $9bn. The central bank lowered its economic growth forecast for this year from 2.1% to 1.9%. **Shell** approved an investment in Brazil's deepwater oil project.

In **Mexico**, the central bank cut rates by 50bp to 9%. Retail sales rose 0.6% MoM in January, or firmer than the Bloomberg consensus of 0% MoM, adding to gains in November (+0.4% MoM) and December (+0.1% MoM). Inflation grew 3.67% YoY for the first half of March, or slightly below the 3.70% expected. **Wal-Mart** de Mexico plans to invest $6bn this year in its Mexico operations to accelerate store openings.

CORPORATE DEBT

CREDIT

Trading was febrile as investors waited for Donald Trump's tariffs to be announced. Tariffs on all auto imports to the US have already disrupted the auto sector and the effects can be seen in recent bond issues. For example, **Forvia** (ex-Faurecia) sold a 2030 maturity at 5.625% on March 19 and the yield has already risen by 30bp since then. Volatility was also in evidence in credit indices like the Xover which went from 298bp to 320bp at the opening on Friday morning. The risk-free rate is also looking for some direction: Germany's 10-year Bund traded between 2.70% and 2.80% over the week before finally falling by 4bp to 2.72% on Friday morning.

Despite the wait-and-see mood, the new issues market remained busy, especially in high yield, with new deals being around 3 times oversubscribed. Clearly, investors still have an appetite for carry and spread assets even if the bonds do not always perform well on the secondary market. New issues included **Fnac Darty** 2032, **Schaeffler** with 2028 and 2031 tranches, **Opella** 2032, **Itelyum** 2030 and **Getlink** 2030.

After a rather quiet month, issuance in the hybrid space also resumed with deals from **Unibail** and **Eurofins**. In subordinated bank debt, **Deutsche bank** stood out by raising $1.5bn with a new CoCo at 7.125% callable in 2030.

Returns were practically flat for investment grade at +0.06% (+0.05% YTD) while high yield edged 0.11% lower (+0.89% YTD) as spreads widened. Due to March's repricing of rates and spreads, HY bonds now yield 6% with 2.8 in sensitivity and average spreads of 320bp.

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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