MARKET FLASH: A WEEK MARKED BY A SURGE IN BOND RATES

- **The president-elect's very aggressive stance on foreign policy gave investors more cause to worry and US equities fell further and bond yields increased.**
- **The US labor market continues to show signs of strength, with rising job vacancies and falling unemployment registrations.**
- **The UK saw the biggest surge in bond rates over the week. 10-year gilts hit an intraday high of 4.9%, a level not seen since 2008.**

The week kicked off with Mike Johnson being re-elected as Speaker of the House of Representatives. It was a more complicated election than expected due to the slim Republican majority but markets approved his success as he was forced to commit to getting the budget deficit under control to get the votes needed. There followed a Washington Post article which suggested some in Donald Trump's team wanted tariffs to be imposed only on strategic sectors rather than across the board. European equities rose in a relief rally but then Donald Trump said the article was baseless.

The president-elect's very aggressive stance on foreign policy gave investors more cause to worry and US equities fell further and bond yields moved even higher after initially rising because of strong economic data. Services ISM rose more than expected to 54.1. The new orders index also rose and the prices paid index fuelled fears over inflation by hitting a high not seen since the beginning of 2023. Confirmation that job offers had risen in November and news that weekly jobless claims were down also pushed bond yields higher. As a result, 10-year US Treasury Yields hit 4.70%, a peak seen in April 2024. The FOMC minutes confirmed that some on the committee wanted to be more restrictive. As US equities are trading at lofty valuations, they suffered from higher bond yields.

The eurozone also saw rates rise with the German Bund flirting with 2.6%. December's eurozone inflation was in line with expectations. Underlying inflation was unchanged at 2.7% while total inflation rose to 2.4% due to higher energy prices. Inflation was higher than expected in Germany and Spain but lower in France and Italy.

The UK saw the biggest surge in bond rates over the week. 10-year gilts hit an intraday high of 4.9%, a level not seen since 2008. The move was due to a heavy issuance programme to come but also by worries over the UK's budget.

Higher rates, notably in the US, and the looming inauguration of Donald Trump have made markets more volatile and fragile. As a result, we have reduced exposure to US equities and turned neutral on risk assets generally. In fixed income, we prefer to look for yield and are focusing on corporate bonds.

EUROPEAN EQUITIES

In a relatively quiet week for economic data, European inflation came in as expected at 2.4% and France's composite PMI for December was revised higher. Tech was the main market focus over the week due to recent upbeat announcements from **Microsoft** and **Foxconn**. The news benefited European companies like **ASML**, **STMicroelectronics** and **Soitec** as well as US chip plays. If Europe ended the period higher, it was mainly due to tech. In contrast, rate-sensitive sectors like property and utilities lost ground as German and French government bond yields rose.

Donald Trump's wish to annex Greenland, even by force if necessary, as well as his recommendation to NATO countries to raise spending on defence to 5% of GDP, naturally had a significant impact on European defence stocks. **Exosens** revised up guidance on growth for 2025 to between 15% and 20%, or much more than expected by analysts, and the stock jumped 10% to return to its IPO price six months ago.

France's **Gaztransport** and **Technigaz**, unveiled a strategic revision concerning its **Elogen** subsidiary, the hydrogen specialist acquired in 2020. The company is loss-making and needs capital for a gigafactory in Vendôme which is expected to open at the end of 2025. The reassessment review is expected in a few weeks and could result in a sale.

In the catering sector, **Sodexo** and Sodexo spin-off **Pluxee** reported their quarterly figures. Growth at **Sodexo** was only 4.6%, or short of investor expectations, largely due to underperformance in Europe. The stock tumbled by close to 7%. **Pluxee**, in contrast, beat forecasts with growth of more than 12% thanks to strong sales in Latin America. The stock jumped more than 15% before stabilising.

US EQUITIES

Markets ended a shortened trading week lower. They were closed on Thursday for a National Day of Mourning for Jimmy Carter who died at the end of December. The Nasdaq 100 was down 1.8% as of Wednesday's close with the Russell 2000 1.2% lower. The S&P 500 lost 1%. Market moves at the beginning of the week reflected nerves before the 2025 Consumer Electronics Show (CES) opened in Las Vegas.

NVIDIA CEO Jensen Huang spoke at the show and maintained his positive outlook for the year ahead. However, data centres were not the focus which could account for the 6.2% drop in the **NVIDIA** share price (around $200bn in market cap). And yet **Microsoft** said it was going to invest $80bn in 2025. Moreover, the Biden administration said that new restrictions on chip exports could be introduced. Jensen Huang said he disagreed with the idea. He also triggered a slump in quantum computing stocks after suggesting the technology would take more than 20 years to bear fruit. **D-Wave** and **Rigetti Computing** plunged by more than 35%.

The CES also featured discussions over autonomous vehicles. Nvidia said it would be reinforcing partnerships and Qualcomm (-0.48%) said there was growing interest in chips for the Advanced Driver Assistance System (ADAS). **Aurora Innovation**, for example, jumped 23.92% but **Tesla** shed 3.92% due to competition hotting up. The autos sector ended flat after rising at the beginning of the week on last Friday's indications of upbeat sales.

Moderna ended the period only 1.41% higher after gaining as much as 11.7% at the beginning of the week on a report of avian flu in the US. The group is among the few companies to have developed a vaccine against this virus.

M&A deals recovered so 2025 could be a good year. **Cintas** bid $5.3bn, a 60% premium, for **Unifirst**.

Results due from **Delta Airlines** should provide better visibility on the impact of Donald Trump's election victory. He is to take office on January 20.

EMERGING MARKETS

The MSCI EM index was 0.6% lower as of Thursday's close. Korea (+4.5%) outperformed. Mexico and Brazil rose 2.9% and 2.3%, respectively while China and India both retreated by more than 2.8%.

In **China**, December's official manufacturing PMI came in below expectations at 50.1, while non-manufacturing PMI was better than expected at 52.2. CPI rose 0.1% YoY, or softer than the 0.2% seen in November. PPI shrank 2.3% YoY, or slightly less than the 2.4% expected. New home sales in December were flat YoY, avoiding a downturn seen in much of 2024 and reflecting signs of market stabilisation after government stimulus. The national consumer trade-in programme was extended and broadened to include smartphones, home appliances and cars. China raised salaries for government workers across the nation by ~5%, or at least Rmb 500/month, the first pay rise for civil servants in 10 years. On the geopolitical front, Donald Trump urged the Supreme Court to pause the law on banning **Tiktok** and asked for time to negotiate an agreement. Elsewhere, the US defence department added **Tencent** and **CATL** to a China military related blacklist. **WuxiBio** sold its Irish vaccine facility to **Merck** ahead of potential US restrictions. **Moutai** announced its 2024 preliminary operational results with both sales (+15.4% YoY) and earnings growth in line with consensus.

In **Taiwan**, December exports rose 9.2% YoY, or better than expected, on robust demand for semiconductors; it was the second highest export figure on record. **TSMC** is reportedly to raise advanced node prices by 5% to 10% in 2025.

In **Korea**, **Samsung Electronics** preliminary OP guidance for the fourth quarter of 2024 was below expectations due to a larger foundry loss. **Hyundai Motor** announced a partnership with **NVIDIA** to accelerate development of AI solutions for future mobility

In **India**, GDP is estimated to rise 6.4% this year, the slowest pace in the last 4 years. December PMI moderated to 56.4 from 57.4 in November. **Tata** Group is to invest $18bn in electronics and semiconductors and will open nine new factories in the next two years. **TSC**'s fourth quarter was below expectations, but the company booked record deal wins. Jewellery revenues at **Titan** for the third quarter of FY 2025 jumped 26% YoY, or ahead of expectations. HDFC Bank's 3Q25 operational update disappointed on loan growth at +3% and CASA up only 4%.

In **Brazil**, December PMI declined to 50.2 from 52.3 in November due to weaker demand and higher input prices (BRL depreciation).

In **Mexico**, December PMI manufacturing was flat MoM at 49.9. December remittances jumped 29% YoY due to MXN depreciation.

CORPORATE DEBT

CREDIT

Volatility returned in the new year both in the US and Europe. Yields on 10-year US Treasuries surged to 4.7%, a level last seen in April 2024, as investors worried about resurging inflation. In the US, Manufacturing and Services ISM and fewer weekly jobless claims than expected suggested the economy might be overheating. Europe has its fair share of worries too. Yields on British gilts jumped 27bp to 4.84% and France is still without a budget.

Given the circumstances, European corporate bond markets managed to stay relatively stable. Investment grade fell 0.6% and high yield 0.2%. But strong interest rate volatility nevertheless weighed on both corporate and financial perpetual debt. The Credit Suisse Euro CoCo index shed 3.6%. Spreads were unchanged so new issuance revived across all market segments with issue premiums of 30-40bp which ended up between zero and 10bp compared to secondary market levels. **Standard Chartered**, **AIB** and **BBVA** issued AT1 debt while **La Poste** and **Lufthansa** sold hybrid bonds. High yield companies **Tereos** and **Kiloutou** also refinanced debt over the 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.

• 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.

DISCLAIMER

This is a marketing communication.

10/01/2025

This document is issued by the Edmond de Rothschild Group. It is not legally binding and is intended solely for information purposes. This document may not be communicated to persons located in jurisdictions in which it would be considered as a recommendation, an offer of products or services or a solicitation, and in which case its communication could be in breach of applicable laws and regulations. This document has not been reviewed or approved by a regulator of any jurisdiction. The figures, comments, opinions and/or analyses contained herein reflect the sentiment of the Edmond de Rothschild Group with respect to market trends based on its expertise, economic analyses and the information in its possession at the date on which this document was drawn up and may change at any time without notice. They may no longer be accurate or relevant at the time of reading, owing notably to the publication date of the document or to changes on the market. This document is intended solely to provide general and introductory information to the readers, and notably should not be used as a basis for any decision to buy, sell or hold an investment. Under no circumstances may the Edmond de Rothschild Group be held liable for any decision to invest, divest or hold an investment taken on the basis of these comments and analyses. The Edmond de Rothschild Group therefore recommends that investors obtain the various regulatory descriptions of each financial product before investing, to analyse the risks involved and form their own opinion independently of the Edmond de Rothschild Group. Investors are advised to seek independent advice from specialist advisors before concluding any transactions based on the information contained in this document, notably in order to ensure the suitability of the investment with their financial and tax situation.

Past performance and volatility are not a reliable indicator of future performance and volatility and may vary over time, and may be independently affected by exchange rate fluctuations.

Source of the information: unless otherwise stated, the sources used in the present document are those of the Edmond de Rothschild Group. This document and its content may not be reproduced or used in whole or in part without the permission of the Edmond de Rothschild Group.

EDMOND DE ROTHSCHILD ASSET MANAGEMENT (FRANCE)

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

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

AMF Registration number GP 04000015

332.652.536 R.C.S. Paris