



EDMOND DE ROTHSCHILD ASSET MANAGEMENT

MARKET FLASH: ARE WE NOW MOVING TOWARDS A PAUSE IN RATE CUTS?

- The Fed and the Bank of Canada have cut their rates by 25 basis points, while the Bank of Japan has postponed its next rate hike.
- Jerome Powell doused hopes for another move down in December by revealing that the committee had rarely been more divided on growth/inflation prospects.
- France saw third-quarter GDP rebound by 0.5% so the government's full-year forecast will be met.

In a busy week for central bank meetings, the Fed cut rates by 25bp as expected and announced the end of its quantitative tightening programme. However, Jerome Powell doused hopes for another move down in December by revealing that the committee had rarely been more divided on growth/inflation prospects and the impact of Donald Trump's policies. The Bank of Canada also cut by 25bp and was equally reserved on the chance of more to come. The Bank of Japan played for time by putting back its next rate hike despite pressure from US Treasury Secretary Scott Bessent at the APEC summit to correct yen undervaluation. The ECB also chose to pass on a rate cut.

The US shutdown meant markets were still in the dark on economic readings, and GDP data in particular. In Europe, France saw third-quarter GDP rebound by 0.5% so the government's full-year forecast will be met. In Germany, stimulus plans have still not had any real impact on growth: GDP was unchanged in the third quarter and remained at the December 2019 level. Eurozone inflation moved near the ECB's target by coming in at an annualised 2.1% despite consumer prices re accelerating in Spain (+3.2% over a year) and in Germany (+2.3%).

Midway through the earnings season, Europe is lagging the US. Only 56% of European companies have on average beaten analysts' expectations compared to 83% in the US. Earnings growth in the US has accelerated to an annualised 16% (9 points more than expected) and is only up 1% in Europe (+2 points). Interestingly, there was not the usual downward revision in S&P 500 consensus expectations in the six months preceding the earnings season. In the US, third-quarter earnings growth was essentially driven by tech, financials and communication services; consumer discretionary and stables were weaker. In Europe, consumption and commodities weighed on overall performance. Consumer discretionary and stables, energy and materials all saw EPS fall.

It was the busiest week so far for third-quarter earnings. Alphabet, Microsoft, Meta and Amazon all upped AI investments. To do so, Meta raised \$30bn, the largest US bond issue since Verizon in 2013 but the deal sent the stock sharply lower as investors worried about the return on investment. Apple, which has so far steered clear of this rush into AI, saw its cash reserves rise 20% over a year to \$51bn.

Ahead of these central bank meetings, we neutralised our positive stance on duration. We still prefer emerging country debt and credit rather than government bonds. We remain cautious on equities as risk premiums are thin, particularly in the US.

EUROPEAN EQUITIES

The earnings season continued with more macroeconomic data. The ECB left rates unchanged: inflation is trending towards the bank's 2% target despite falling oil prices and resilient economic activity.

In France, the Assembly added to the prevailing gloomy atmosphere by approving a batch of unfavourable measures for companies. However, in contrast with Germany, third-quarter GDP rebounded.

Sector switches into tech were illustrated by **Capgemini**. The group raised full-year guidance, citing rising US demand and growth in its AI businesses. Revenues at **Wavestone** were as expected stable and a rebound in the second half is still expected. **Nokia** unveiled a strategic partnership with Nvidia to develop new generation 6G technology. **Kion** continued to make progress across all divisions and is benefiting from increasing demand for intelligent, connected and automated solutions. **Safran** reported a rise in third-quarter sales and raised guidance mainly thanks to strong growth in civil jet engine maintenance. **Deutsche Bank** and **Santander** reported upbeat figures and **HSBC** raised guidance on profitability.

Positive investor sentiment for luxury companies was confirmed even if **Moncler** said sales momentum in the US was mixed. Sales at **Air Liquide** fell but the group reiterated guidance. **WPP** plunged after a new profit warning: the former global media number one said it expects to see a 5.5% drop in revenues this year. **Novartis** announced lower-than-expected earnings but maintained full-year guidance.

US EQUITIES

US markets hit new record highs before edging back on Thursday on profit taking in the tech sector. Over the week, the S&P 500 gained 0.45% and the Nasdaq 100 1.49%. The Fed cut rates by 25bp to 3.75-4% but also struck a more cautious note. Jerome Powell said another rate cut in December was not automatic. He referred to the lack of data due to the shutdown and said FOMC members still had diverging views. Elsewhere, Donald Trump visited Asia and reached a trade agreement with China. The deal means a slight drop in US tariffs in exchange for China buying soybeans, maintaining its rare earth exports and agreeing to engage with Washington in the fight against the fentanyl traffic. Washington also struck a big deal with South Korea. It includes establishing a joint \$350bn fund to invest in ship building and energy as well as reduced tariffs on Korean car exports to the US.

Tech earnings reports were in focus. They varied but were generally upbeat. **Nvidia** (+8.9%) was the first company to clear the \$5 trillion water mark after announcing orders worth \$500bn and new contracts to build 7 supercomputers. Results at **Alphabet** (+8.3%) showcased strong growth in ad revenues as well as in its cloud business (+33% over a year). **Meta**, however, tanked 9.7% after boosting investment budgets for 2026. Semiconductor plays extended their rally: **Seagate** (+14.6%) and **Teradyne** (+22.6%) both beat expectations on AI and data centre demand. In industrials, **Caterpillar** (+11.6%) beat expectations while **Boeing** (-9.6%) plunged after 777X certification was again put back to 2027. In healthcare, results at **Cardinal**

Health (+17.3%) and **Eli Lilly** (+2.3%) were both robust. Eli Lilly is still seeing strong demand for its weight loss treatments.

Brent crude retreated to \$64.6 and WTI to \$60.1 due to US dollar strength and abundant global supply. Gold consolidated briefly but remained close to \$4,000/oz, or near its highs, due to interest rate cuts and persistent geopolitical tensions.

EMERGING MARKETS

The MSCI EM index had advanced by 1.62% in USD this week as of Thursday. Korea, Taiwan, Mexico, Brazil and China were up by 5.57%, 3.38%, 2.17%, 1.69% and 0.56%, respectively. India slipped 0.37%

In **China**, official PMI fell to 49.0 in October from 49.8 in September, a six-month low, remaining below the 50-mark. Industrial profits and revenue increased by 23.0% YoY and 3.3% YoY, respectively, in September (vs. +18.8% and +2.3% in August), driven by a favorable base effect. Tangibles from the Xi-Trump meeting were modestly better than expected, which could support exports in the near term. The Plenum full text was released, in line with headlines from last week: “reasonable” economic growth, technological self-reliance and increased domestic demand were the focus. **BYD** reported a third quarter miss on expectations primarily driven by industry competition and cost pressure. **PingAn** reported better-than-expected third-quarter earnings and showed several positive profit improvements. **Moutai** had flat revenue in the third quarter with better cost control. **AIA** reported strong results, beating consensus, driven by strong growth in new insurance business.

In **Taiwan**, GDP for the third quarter grew 7.64% YoY, or ahead of expectations of 6.25%. **Mediatek** results were in line.

In **Korea**, the US announced a trade deal, including an auto and parts tariffs reduction from the current 25% to 15%, along with a \$350bn investment fund in the US. **Nvidia** reached an agreement with **Samsung**, **SK Group** and **Hyundai Motor** to supply its chips, with the South Korean government building sovereign AI computing infrastructure. **SK Hynix** posted a strong third-quarter print that cleared lofty expectations and delivered a positive surprise on guidance. **Samsung** also reported a strong third quarter print driven by the Semicon division, increasing memory prices and improving foundry fab utilisation rate. **Hyundai Motor**'s third quarter results were broadly in-line with the market after some pressure from increased tariffs of 25%.

In **India**, September industrial production rose 4.0% YoY, or ahead of expectations of 2.9%. The government approved seven projects as part of its drive to make electronics components locally. **Kaynes** received approval for four projects, with total investment reaching \$630m. The power ministry said it had achieved the milestone of crossing 500 GW in total power capacity, with non-fossil fuel sources contributing over half. **Larsen & Toubro**'s reported a positive surprise in second quarter results with strong order inflow, while execution was weaker due to the excessive monsoon. **Supreme Industries** reported a weak quarter but had healthy guidance for 2026 driven by agriculture and infrastructure. **TVS motors** delivered an inline quarter, continuing to outperform the industry in both domestic and export markets. **Bandhan** (micro finance) disappointed on NIM and asset quality.

In **Brazil**, President Lula met his US counterpart to discuss trade dynamics. **Bradesco** reported in-line results, but with positive trends for ROE normalisation. **Mercado Libre** beat expectations on strong GMV (ex-FX) growth of 34%, quarterly growth acceleration and market

share gains. Iron producer **Vale** reported solid third-quarter results on the back of outperforming production figures and price strength.

In **Mexico**, Donald Trump and Claudia Sheinbaum agreed to extend a critical trade deadline by several weeks. Imports rose 15.2% YoY compared to the previous year, reaching a total of \$58.9bn, while exports grew 13.8% YoY to \$56.5bn.

In **Argentina**, Javier Milei tripled his number of senators in a major electoral victory.

CORPORATE DEBT

Spreads narrowed again this week after US-China tensions abated and company results remained robust.

The Euro investment grade index tightened by 2bp and high yield by 9bp. Markets brushed off the Fed's hawkish tone on Wednesday and all segments ended the week higher. Euro Investment Grade gained 0.09%, Euro high yield 0.26%, and AT1 bonds 0.28%. Euro high yield saw another week of inflows. Strong liquidity was showcased by **Meta's** \$30bn jumbo deal in 6 tranches. The order book ballooned to \$125bn.

Euro new issuance was quiet as companies reported results. **Iberdrola** raised €1bn at 3.75% and the issue was close to 8 times oversubscribed. Banks sold more senior debt.

Results at most banks beat expectations. **BNP Paribas** was again in focus as it provisioned €190m for "a specific credit situation", a figure which overshadowed the bank's reasonable results and its confirmation of guidance. BNP Paribas's CoCos were stable 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.
- 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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