EDMOND DE ROTHSCHILD

EDMOND DE ROTHSCHILD ASSET MANAGEMENT

MARKET FLASH: MARKETS HEAVE A HUGE SIGH OF RELIEF AFTER WASHINGTON AND BEIJING AGREE ON A TRUCE

- **The postponement of tariffs between the USA and China has brought relief to the markets, thereby reducing the likelihood of recession and inflation.**
- **April's economic releases from the US have not yet shown any impact related to tariffs, with CPI inflation holding steady at 2.3%. However, the PPI figures reveal a slight acceleration in the prices of imported goods.**
- **Government bond yields rose at the beginning of the week after the US-China truce, but the rise was held back by the US-Iran talks and US economic releases.**

Markets were relieved to see Washington and Beijing agreeing to cut tariffs on Chinese exports to the US from 145% to 30% for 90 days. This level is much more favourable than the 60% touted by Donald Trump on his campaign trail. The agreement will help both countries return to the negotiating table and it reduces the probability of a recession and should ease the inflationary impact of tariffs.

US economic data for April has not yet reflected higher import duties, either in prices or a slowdown in consumer spending. CPI for the month came in at 2.3% so the acceleration that was expected to occur has yet to show through, including for goods. Services continued to fall back. Meanwhile, lower oil prices have helped energy and food inflation to slow. PPI showed that prices for imported goods rose slightly from 2.3% in March to 2.5%. When it released its results, Walmart said higher prices were inevitable even after tariffs were slashed from their peaks but the hikes will only take effect at the end of May. There have been no real signs of a slowdown in volumes for the moment. The drop in April retail sales followed a surge in March, since revised higher, due to households anticipating price rises.

Government bond yields rose at the beginning of the week after the US-China truce. In Europe, the rise was underpinned by Isabel Schnabel who said European interest rates should be kept resolutely in neutral territory as long as the impact of the trade war was not clear. However, US economic data and talks between the US and Iran stopped rates moving higher.

We are maintaining our slight equity underweight, especially in the US. We believe risk premiums are too low given the expected impact of Donald Trump's tariff policy. We are also still neutral on fixed income but with a preference for corporate debt. We are keeping the dollar under vigilance.

EUROPEAN EQUITIES

The previous week had ended with encouraging talks between Washington and Beijing which suggested both were keen to dial down trade war tensions rapidly to preserve growth, especially in the US. Markets gained ground with cyclicals leading the way. In the US, stable inflation offered some slight relief even if the bounce in durable goods prices was not completely offset by slowing inflation in services. In Europe, cyclical sectors like autos recovered although sector rotation had begun to show signs of running out of steam by the end of the period as defensives rallied. Investors are now waiting for a new catalyst as the good news already looks to have been discounted. After a meeting in Turkey with US Secretary of State Marco Rubio, Johann Wadephul said Germany wanted to boost spending on defence to 5% of GDP, or much more than the previous target.

In company news, **LEG IMMOBILIEN** enjoyed solid first quarter growth in net rental income and adjusted operating profit thanks to high rents, stable costs and no major capital spending. The group stuck with its guidance on growth for 2025. **Siemens** reported relatively solid figures but said trade uncertainties had resulted in investment and orders slowing, especially in data centres. Despite the troubled environment, management reaffirmed annual guidance. **Deutsche Telekom**'s results were encouraging as its mobile division managed to beat expectations despite strong competition. The group raised guidance for this year thanks to T-Mobile US; forecasts for the rest of the world were unchanged. **Richemont**'s 2025 results showed that jewellery was still the main growth driver. The operating margin contracted slightly due to challenges in watch making and increased pressure on costs. **EssilorLuxottica**'s roll-out of its Nuance Audio glasses is making progress and the group is widening its partnership with hearing aid distributors.

In M&A, **Danone** reinforced its deal-making in the US food sector by acquiring a majority stake in Kate Farms, a US company making plant-based nutrition.

US EQUITIES

Wall Street surged after US-China talks resulted in tariffs being slashed.The Nasdaq jumped 7.5%, the S&P 500 5.4% and the Russell 2000 4.2% in USD.

Tech was the focus of the US-China trade war, and particularly the semiconductor sectors so major players benefited the most from de-escalation. **Nvidia** soared 15.8% over the period. **Broadcom** (+12,9%) also joined the party, moving above $1 trillion in market cap. All Magnificent 7 stocks rocketed with **Amazon**, which sells many Chinese-made products on its site, up 7.7%. And **Apple** gained 8% despite the group announcing that production of smartphones for the US was to be transferred to India. **Cisco** jumped 8.5% after its third-quarter results allowed the company to raise full fiscal year guidance. .

Slashing tariffs also boosted consumer discretionary stocks. **Tesla** rocketed 21.3% despite lower results and sagging European demand. **Ford** and **General Motors** gained 6.9% and 6.7%. Toy-maker **Mattel** (+17.4%), DIY manufacturer **Stanley Black&Decker** (+15.2%) and sportswear companies **Nike** (+6.8%) and **Lululemon** (+13.8%) also surged as production is mainly based in Asia.

But the mood in consumer staples was mixed. Despite a 4.5% rise in quarterly sales, **Walmart** slipped 0.1%. The group said it would gradually be raising prices to take account of higher customs tariffs.

Healthcare slumped 2.7%, the worst performing sector this week, after the government issued a decree aimed at reducing prices towards levels seen in other developed countries. Health insurance giant **United Health** cratered 28.3% after withdrawing guidance that was issued only last month. The group also announced that its CEO Andrew Witty had resigned, to be replaced with former CEO Stephen Hemsley. What's more, the US Justice Department is investigating possible Medicare fraud.

Elsewhere, April inflation came in at 0.2% when analysts were expecting 0.3%. This slowdown could provide the Fed with more flexibility when making future monetary policy decisions.

Tech (+8%) and consumer discretionary (+7.5%) were the main beneficiaries of tariff relief while defensives like consumer staples edged 0.1% lower and utilities managed a relatively modest 1.2% rise.

EMERGING MARKETS

The MSCI EM index was up 3.14% in USD this week as of Thursday's close. All major emerging markets closed in the green. India, Taiwan and China were up 4.83%, 4.39% and 2.99%. Mexico, Brazil, and Korea advanced by 2.35%, 2.20% and 2.04%.

In **China**, CPI fell 0.1% YoY in April while PPI recorded a decline of 2.7%; both were in line with expectations. Total social financing (TSF) flows and new RMB loans came in below market expectations, mainly due to weaker corporate loans growth. The US and China achieved a major deal to slash reciprocal tariffs for 90 days. Most first-quarter results from the internet giants beat market expectations, with **JD.com** delivering a solid quarter thanks to continued trade-in effects. Alibaba also performed well on its core e-commerce business, and cloud growth was on track to accelerate further. **Netease** reported a beat on strong gaming revenue. **Tencent** continued to accelerate growth across business lines with a solid fundamentals and sustainable earnings growth outlook. **CATL**'s Hong Kong listing was met with very high demand from both retail and institutional investors.

In **Taiwan**, April exports jumped 33% YoY, or faster than the 18.9% expected. Imports grew 29.9% YoY, also ahead of the 16% YoY expected. **Hon Hai** reported a good quarter on strong demand but toned down FY25 revenue guidance due to the FX impact.

In **Korea**, exports for the first 10 days of April jumped 23.8%

In **India**, headline CPI inflation declined to a near six-year low of 3.2% YoY in April driven by lower food inflation. A trade delegation including the minister of commerce will go to the US this weekend to finalise the first tranche of a trade deal. **Britannia** reported a beat on EBITDA driven by cost efficiencies. **Makemytrip** reported a steady quarter, trending slightly ahead of estimates. **Bharti Airtel** reported a strong quarter with subscriber growth ahead of expectations and multi-year elevated EBITDA and FCF growth. **Siemens** reported weak top line growth but strong order inflow on a public capex revival. **Kaynes Technology** also presented strong book orders (up 61% YoY), and positive margin trends.

In **Brazil**, April inflation was 5.53% YoY, or in line with expectations. Lula and Xi Jinping signed over 30 agreements concerning Chinese investments in Brazil; these include mining, transport infrastructure, and ports. **Meituan** announced a new business in Brazil. **Nu Bank** reported a weak first quarter result below consensus expectations due to higher provisions. **Lojas Renner** beat expectations on a better top line, gross margin and operating leverage. SSS rose 10.8%. Banco do Brasil presented disappointing numbers driven by weaker NII and management suspended 2025 guidance. **Eletrobras** also missed results on lower gross energy margins.

In **Mexico**, April CPI was 3.93% vs. expectations of 3.90%. Industrial production for March rose 1.9% YoY, or ahead of expectations of 1.5% YoY. In Argentina, all eyes are on BA's vote as a proxy for October's congress election.

In **Poland**, **PKO** reported a good set of results with ROE hitting 18.6%. Poland will be holding the first round of voting in its Presidential election.

CORPORATE DEBT

CREDIT

Markets remained in thrall to geopolitical developments. Last weekend's draft agreement on tariffs in Geneva between the US and China helped risk assets make further gains with Euro Investment Grade up 30bp and Subfin/Corporate Hybrids/High Yield 80bp better. But interest rate volatility persisted. After a strong rally, credit markets consolidated positions.

The new issues market was particularly busy with CoCos from **Sabadell**, **Erste** and **Barclays**, Tier 2 debt from **Matmut**, **Credit Agricole** and **Credito Emiliano** and corporate hybrids from **Volkswagen**, **Veolia**, **Abertis**, **Prysmian** and **Air France**. Demand was strong thanks to generous yields and investors no doubt opting for defensive positioning. Spreads nevertheless remained sensitive to bad news, for example from **Telefonica** in Investment Grade and **Air Baltic** and **Graanul** in High Yield.

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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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