



EDMOND DE ROTHSCHILD ASSET MANAGEMENT

MARKET FLASH: THE FED KICKS OFF CENTRAL BANK MEETINGS

- **The Fed cut rates by 25 basis points for the third consecutive time, triggering a rise in equity markets.**
- **In Europe, the probability of an agreement with Russia increased after Volodymyr Zelensky said a referendum on ceding control of some Ukrainian territory could be held, which eurozone equities higher.**
- **In China, exports rebounded in November while imports remained flat, a sign that Chinese domestic demand is still soft.**

It was a decisive week. The Fed meeting took place amid economic uncertainty due to the lack of firm statistics following the government shutdown. The 25bp cut was expected but investors had assumed Jerome Powell's tone at the press conference would be more restrictive. A pause in cuts could be ahead but he said the fragile labour market had motivated the move and that inflation was still high but impacted by the transitory effect of tariffs. He added that current non-farm payroll data overestimated job creations and that there could have been job losses in recent months. The Fed also announced that it was to start asset purchases again this week to maintain reserves at adequate levels and reinject liquidity into markets. The bank will be buying short-dated bonds at an initial pace of \$40bn a month. In a more optimistic move, 2026 growth forecasts were raised from 1.8% to 2.3%. US Treasury yields immediately fell due to Powell's less hawkish stance and equity markets rallied. All indices rose but not all to the same degree. US small and midcaps can expect to benefit from any economic improvement and rate cuts. However, tech stocks were dragged down by Oracle's results and its weaker-than-expected guidance. Broadcom's results also failed to convince investors. At the end of the period, the Fed re-elected 11 presidents out of the 12 regional banks, thereby assuaging concerns over how independent US monetary policy might be in 2026. Government bond yields edged higher on the news as it suggests regional Fed chairs might brush off political pressure to be more accommodating.

In Europe, the probability of an agreement with Russia increased after Volodymyr Zelensky said a referendum on ceding control of some Ukrainian territory could be held. German chancellor Friedrich Merz said he was optimistic talks could go forward.

In France, the Social Security budget was approved by a small majority on a second reading after last-minute horse trading with the various political parties. Barring unforeseen circumstances, the text will formally be adopted next week. OAT-Bund spreads had previously tightened significantly and the news had no real effect. But European government bond yields rebounded after the ECB's Isabel Schnabel suggested the bank's next move could be to raise rates. There will be no move higher in the immediate future but investors took note of a more hawkish stance.

In China, exports rebounded in November, rising by an annualised 5.7% after October's 0.8% fall. Goods exported to the US declined in favour of the rest of the world. Exports to the European Union, for example, jumped by an annualised 14.8% in November. At the same time, imports rose less, a sign that Chinese domestic demand is still soft.

Given the circumstances, we are still slightly cautious on risk assets. We are tactically positive on duration and prefer emerging country debt as well as higher-rated company bonds.

EUROPEAN EQUITIES

As markets remained hesitant and investors continued with end-of-year adjustments, this year's big themes- central banks, AI and the Ukraine peace talks- drove market trends for another week.

The Fed made its third 25bp rate cut in a row, but the mood in Europe was more hawkish. Isabel Schnabel, now in the running to replace Christine Lagarde as ECB chair, suggested that rates had now reached a floor. She added that she was comfortable with markets factoring in a hike in the future. In France, the government's position was consolidated after the Assembly adopted the Social Security budget. However, the lack of any significant retrenchment suggests the government deficit could be above 5% of GDP in 2026. In Germany, industrial production surprised on the upside thanks to construction and manufacturing. Meanwhile, the European Union is preparing an *Affordable Housing Act* to end Europe's housing crisis. The plan would certainly underpin the construction and materials sectors.

In company specific news, there were several strategic developments. **Exosens** won a €500m contract from OCCAR (*Organisation Conjointe de Coopération en matière d'Armement/Organisation for Joint Armament Co-operation*) for night vision equipment. The group's order book is now full up to 2029. **Nexans** reassured markets by refuting reports that its Great Sea Interconnector (GSI) project had been cancelled. GSI is an ambitious electrical interconnection project between Greece and Cyprus. The group said work was proceeding as planned. At its Capital Markets Day, **Schneider Electric** said it was boosting its growth trajectory from 7% to 10% by 2030 thanks to the AI boom, data centre growth and mounting demand for energy. Profitability will also gradually improve. Thanks to sustained momentum in Asia, **Brunello Cucinelli** raised annual guidance, thereby delivering a reassuring message to the entire luxury sector. **L'Oréal** reinforced its presence in dermatology by taking its stake in **Galderma** from 10% to 20%. **Unilever** spun off its ice cream division this week, a business which had previously diluted group profitability. Investors will now be able to look at investing again.

US EQUITIES

Wall Street ended the period close to recent highs. The S&P 500 edged 0.45% higher while the Nasdaq 100 was flat (-0.02%). Any rises were driven by the Fed's 25bp rate cut. However, Jerome Powell said that after a probable pause, any later decision would be data-driven with inflation remaining so high. It was a contrasted message from a divided Fed. Another cut in 2026 is on the cards and the bank is buying Treasury bills to keep reserves at a reasonable level. The question of the Fed's independence is still simmering in the background. Donald Trump has been stepping up pressure on who will succeed Jerome Powell. The decision is due in January and the favourite is Keven Hassett. Elsewhere, Washington reduced tariffs on Swiss imports and rekindled tensions on energy markets by seizing a Venezuelan oil tanker. Markets continued to track talks on a possible Russia-Ukraine peace deal.

In company news, the main subject was AI and related infrastructure investments. **Oracle** (-8.6%) sold off after disappointing results and a massive increase in capex despite the group's heavily negative FCF. Worries resurfaced over the short term profitability of companies engaged in the AI race. As a result, semiconductor stock performance was more hesitant. Among megacaps, **Alphabet** (-2.7%) was hit by OpenAI's launch of GPT 5.2. **Nvidia** (-0.8%) remained the centre of geopolitical issues. The Trump administration confirmed that it had given the green light for H200 chips to be exported to certain approved customers in China (but with security constraints) after Beijing said it was considering restrictive measures. In the media sector, **Disney** rose 5.9% after investing \$1bn in OpenAI with Disney characters to be added to Sora. **Netflix** (-6.1%) announced an agreement to buy most of **Warner Bros Discovery's** assets. **Warner** jumped 13% but the news rekindled concentration and antitrust concerns with Donald Trump saying the deal could be problematic because of market share issues. This was followed by **Paramount Skydance** (+5.7%) launching a hostile counterbid for **Warner** at \$30 a share, valuing the group at \$108.4bn.

Financials outperformed significantly, led by credit card companies like **Visa** (+4.4%) and **American Express** (+3.9%).

Weight loss drugs and innovation drove healthcare stocks like **Eli Lilly** while **Pfizer** unveiled an agreement with **YaoPharma**, a Shanghai Fosun Pharmaceutical subsidiary, to develop and market a pill for obesity.

EMERGING MARKETS

The MSCI EM index was down by 0.54% in USD this week as of Thursday. Mexico, Brazil, Taiwan, and Korea were up by 3.17%, 0.63%, 0.35% and 0.10%. China and India were down by 2.27% and 1.36%

In **China**, November exports rose 5.9% YoY. The annual trade surplus surpassed \$1 trillion for the first time, despite declining exports to the US. Autos, chips, and ships remained the strongest contributors to growth. CPI growth accelerated to 0.7% YoY in November, with food costs moving sharply higher. Factory deflation worsened, with PPI falling 2.2%. The Central Economic Work Conference concluded. The policy stance will maintain economic support but refrain from ramping up stimulus. Domestic demand was the very first topic amid easing external geopolitical risk. The US administration allowed H200 to export to China, with expectations to see 25% revenue tax vs. prior expectations of 15%. Elsewhere, Mexico will impose tariffs up to 50% on many Chinese products, in addition to new tariffs on other importers. China is to impose export licenses on some steel products after January 1st. Several major Chinese polysilicon producers have set up a JV to help ease overcapacity in the solar supply chain. **CATL** plans to issue up to 10bn in yuan bonds. **Vanke** held a meeting with bondholders to discuss a debt extension plan for a RMB 2bn onshore note due this year.

In **Taiwan**, November exports surged 56% YoY, significantly exceeding the 42% estimate and accelerating from 49.7% in October. Imports jumped 45%, or well above the 16.7% forecast and up from 14.6% previously. November 2025 revenues at **TSMC** reported November 2025 were up 24.5% YoY. **Delta Electronics** saw November sales surge 38% YoY.

In **Korea**, December trade data showed exports surging 17.3% YoY in the first 10 days, significantly accelerating from 6.4% in the prior period. The foreign ministry sought to accelerate cooperation with the US on atomic energy and nuclear-powered submarines. Moody's upgraded SK Hynix's issuer and senior unsecured ratings to Baa1 from Baa2.

In **India**, the RBI as expected reduced the benchmark rate by 25bps. Russian President Vladimir Putin held talks with Prime Minister Narendra Modi at the 23rd Russia-India Summit, where they agreed to diversify mutual economic ties. A US trade representative said the US received their "best ever offers" from India during two-day talks. Daily traffic data of domestic passengers has started to recover. **Amazon** announced a record \$35bn investment in India by 2030 across its businesses, targeting AI-driven digitisation and export growth. **Microsoft** pledged \$17.5bn between 2026 and 2029 to advance India's cloud and AI infrastructure, in addition to the \$3bn announced in January 2025. **JioHotstar** committed \$445m to South India's creative economy over five years.

In **Brazil**, November consumer prices rose 0.18% month-over-month, or slightly below the 0.19% estimate. October's retail sales came in above consensus at 1.1% MoM. As expected, the central bank kept the Selic rate stable at 15%. Mexico's tariff increase could affect \$1.7bn of Brazilian exports, according to the National Confederation of Industry (CNI). **Sanepar** approved a 2026-2030 investment plan totalling BRL 13.08bn.

In **Mexico**, November inflation came in hotter than expected, with CPI rising 0.66% month-over-month versus the 0.56% consensus. Vehicle production and exports both declined in November, falling to 322,205 units and 279,342 units respectively from 367,870 and 314,227 in October. Congress approved tariff increases of up to 50% on over 1,400 products from China and other countries without free trade agreements, primarily targeting automobiles, textiles, and appliances. **Grupo Aeroportuario** completed its \$295m acquisition of **URW Airports**. **Banorte** received antitrust panel approval to sell **Bineo** to **Klar**.

In **Argentina**, inflation accelerated in November to 2.5%, driven by food prices reflecting FX volatility before midterm elections. On the other hand, September's activity growth surprised positively at 0.5% MoM. **Carrefour** is to start operations in Argentina. Government made a reduction of export duties for grain and the byproducts chain official. The government sent the labour reform bill to congress. Javier Milei wants to define Governance Ground Rules with a "Fiscal Stability Bill" to limit spending.

CORPORATE DEBT

The Goldilocks scenario is back on credit markets thanks to the latest FOMC. The Fed raised its growth forecast for 2026 from 1.8% to 2.3% and now expects inflation to fall from 2.6% to 2.4%. A slight boost to growth with inflation under control is an ideal environment for credit assets.

The iTraxx Crossover and Main indices duly tightened by 5bp and 1bp to hit lows not seen since 2022.

Year to date, investment grade and high yield have returned 2.8% and 5.2%. IG currently yields 3.2% and IG 5%, or still around the 60th percentile over 10 years so carry strategies still look attractive.

The end-of-year period is historically favourable and the technical situation is still solid. Over the last week, JP Morgan says €135m went into IG and €148m into HY.

In new issuance, the big deal came from **Celsa** which refinanced with a B+ bond, raising €750m at 8.25% due 2030. The issue saw heavy demand and the bond is already up 2% in secondary trading.

Elsewhere, France's **Eutelsat** finalised its first €670m capital raising in a programme totalling €1.4bn. The group is expected to refinance its entire capital structure subsequently.

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.

DISCLAIMER

This is a marketing communication.

12/12/2025

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.

Copyright © Edmond de Rothschild Group - All rights reserved

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