



## EDMOND DE ROTHSCHILD ASSET MANAGEMENT

### MARKET FLASH: CAUTION IS ADVISABLE IN TODAY'S ENVIRONMENT

- **Germany's final fourth-quarter GDP reading showed a 0.3% rise QoQ, a sign that private consumption was strong, government spending on the rise and investment recovering.**
- **Several Fed members moved to a more restrictive position by reiterating the need to have more solid proof of disinflation before cutting rates again.**
- **US-Iran talks continued in Geneva but with no progress; Tehran rejected the US demands.**

**The US Supreme Court's decision to suspend EEPA-based tariffs was immediately countered by Donald Trump's announcement of a 10% levy on all imports under Section 122 of the 1974 Trade Act. The episode rekindled concerns of more trade tensions to come. As a result, global equity markets fell at the beginning of the week and government bond yields retreated. However, Donald Trump's riposte is in fact ring-fenced: his new tariffs will run out after 150 days and any extensions will need to be approved by Congress. Unsurprisingly, Chinese equities and several emerging markets rebounded. Investors are assuming that tariffs will end up being lower than at present. In the end, Donald Trump signed a decree to impose 15% tariffs when appropriate for specified countries and sectors but there was no blanket increase. By indicating that existing trade agreements could be maintained, notably with the European Union, the White House sent a reassuring message. European equity markets then advanced while US Treasury yields were more or less flat.**

**Germany's final fourth-quarter GDP reading showed a 0.3% rise QoQ, a sign that private consumption was strong, government spending on the rise and investment recovering. But growth is still being impeded by exports as Germany gradually repositions itself for domestic demand. Elsewhere, European company confidence indicators worsened among industrials and services. In the US, economic momentum remained strong with household confidence improving in February. In another indication of a resilient labour market, weekly jobless claims were 212,000 in February (vs. the 216,000 expected)**

**Several Fed members moved to a more restrictive position by reiterating the need to have more solid proof of disinflation before cutting rates again. However, their comments had little effect on Treasury yields. There was a more marked reaction in Japan where PM Sanae Takaichi's concerns over fresh rate hikes weighed on bond yields and the yen. The appointment of Toichiro Asada and Ayano Sato to the Bank of Japan's board illustrated the PM's commitment to a more accommodating stance. But Japan's inflation surprised on the upside, especially for core inflation, while retail sales fell. China's central bank once again chose to leave its main interest rates unchanged while allowing the renminbi to appreciate.**

**Elsewhere, US-Iran talks continued in Geneva but with no progress. Washington is insisting on the Fordo, Natanz and Isfahan plants being destroyed, all enriched uranium being handed over and a ban on any uranium enrichment except for Tehran's power station. All**

**three demands were rejected by Iran. Oil is now trading around recent highs at \$71 so the geopolitical risk premium has not fallen.**

**We remain upbeat on equities. They stand to benefit from economies holding up and good company results. We have a strong preference for Japan and emerging markets, especially in Asia and Latin America where fundamentals are improving and conditions now more favourable following recent tariff developments. In Europe, we have increased hedging in case the US intervenes in Iran. We continue to like US Treasuries and emerging country sovereign debt. We are more cautious on corporate debt due to spread levels and some bad news on private credit companies like KKR.**

## EUROPEAN EQUITIES

In another week of choppy trading, investors were split between Middle Eastern risk and AI disruption fears. US-Iran talks in Geneva, continuing amid threats of targeted hits on Iranian sites and questions over uranium stocks that had already been enriched, provided fresh tension points and sent gold higher. The AI theme also drove market trends. Some investors are enthusiastic and semiconductor stocks soared. Others are more cautious and Nvidia fell despite strong quarterly results. European equities reacted positively to Donald Trump's comments on tariffs and the fact that existing trade agreements will be maintained, including the deal with the European Union.

The earnings season continued with generally upbeat results. **Endesa** stood out in the pleasant surprise category. The group's results rebounded sharply and guidance was raised. The chemicals sector continued to outperform thanks to strong figures from **Croda**. **Arkema** was also on form and managed to improve its cash position. Elsewhere, **Puma** sent a positive signal for the consumer discretionary sector with better-than-expected results and ambitious targets for 2027. Financial services also performed well. The **London Stock Exchange** outperformed thanks to its results, a share buyback programme and improved visibility for this year. Among banks, **HSBC** and **Santander** also reported robust figures. Strong momentum in the defence sector was confirmed by upbeat results from **Exosens** and by **Leonardo's** prelims which were higher than both guidance and consensus estimates. **Schneider** also gained ground. The group gave reassuring guidance for 2026 and like-for-like growth beat expectations thanks to its energy management and industrial automation divisions. But **Diageo** plunged after a sales warning for this year. Steep falls in North American and Chinese sales showcased a drop in spirit consumption.

## US EQUITIES

Wall Street seesawed this week due to trade tensions and AI concerns, but the S&P 500 and Nasdaq ended the period practically flat. The Russell 2000 gained 0.51%.

The week's events illustrated the dilemma facing investors: they are caught between positive company news and political/technological risks. Investors cheered the Supreme Court's decision to throw out most of Donald Trump's tariffs but his almost immediate decision to introduce new 15% levies rekindled fears for companies who will have to readjust their value chains. In tech news, a Citrini Research article at the weekend set off a wave of speculative selling on Monday by highlighting the risk of a lasting demand shock from a rapid deployment of AI agents across sectors like software, fintech, delivery chains and private credit. The

scenario was to some degree offset by Tuesday's *Enterprise Agents* event organised by **Anthropic** which was keen to stress the idea of partnerships rather than conflict. The company also said its language model Claude was to be added to several company software suites. A rebound in risk assets ensued and fears over immediate disruption subsided. Elsewhere, the Conference Board's household sentiment index recovered in February. Investors are now waiting for the producer prices index, which could influence PCE expectations, and the FOMC calendar.

The AI rotation theme was again in evidence. Semiconductors initially gained after **Advanced Micro Devices** (+8.7%) unveiled an agreement with **Meta** for up to 6 GW of GPUs. The news also lifted **Intel** (+5.7%) and **Qualcomm** (+3.1%) but then **Nvidia** tanked 5.5% as its excellent results were already factored in and the sector as a whole reversed course. **Broadcom** fell 6.7%, **Lam Research** 5.4% and **Applied Materials** 5.5%. Financials (+0.02%) remained in focus over private credit woes. Worries over **Blue Owl Capital** and falls in **Blackstone** and **KKR** fuelled doubts over liquidity and valuations in some private investment funds, especially those exposed to software. Consumer staples gained 1.10% thanks to the sector's defensive status and upbeat figures from food and drink companies like **Keurig Dr Pepper** and **Freshpet**. Healthcare gained 0.38% on strength in biotech and healthcare services companies like **Vir Biotechnology**, **Jazz Pharmaceuticals**, **Acadia**, **United Therapeutics** and **Acadia Healthcare**. Utilities (+1.83%) outperformed as investors looked for visibility and dividends amid mounting volatility. Heavily cyclical sectors were more muted. Industry dipped 0.30% and communication was more or less flat (-0.07%) as was the materials sector (+0.08%) and listed property (+0.16%) while consumer discretionary edged 0.34% higher.

## EMERGING MARKETS

The MSCI EM index had gained 3.37% in USD as of Thursday. Korea (+11.40%) and Taiwan (+6.40%) led gains. Mexico and India edged 0.13% and 0.11% higher. China and Brazil were down by 1.13% and 0.66%

**China** and the US are set to discuss an extension to their tariff truce when Donald Trump meets Xi Jinping on March 31. German Chancellor Friedrich Merz and his delegation visited China, along with tech companies such as **Unitree Robotics**. **Nvidia** secured a license to ship a small number of its H200 chips to customers in China. The government added 20 Japanese entities to its export control list for dual-use civil-military items. China's domestic tourism spending over the nine-day Lunar New Year break was up by more than 15% YoY. Fourth-quarter revenues at **Trip.com** jumped 21% YoY, or more than expected. Solid business momentum continued despite regulatory overhang. **Hong Kong Exchange's** fourth-quarter profits were well ahead of consensus, led by better-than-expected investment returns and lower operating expenses. **Alibaba** said Qwen (AI agent app) powered 200 million holiday purchases by using voice-like prompts.

In **Taiwan**, the current account surplus widened to \$69.93bn in the fourth quarter. Taiwanese companies reacted positively to **Nvidia's** strong results.

In **South Korea** the central bank left its policy rate unchanged at 2.50% as expected. Exports adjusted for working-day differences climbed 47.3% YoY in the first 20 days of February. South Korea and the UAE agreed to pursue investment cooperation projects worth over \$65bn, including \$35bn in defence projects. **Samsung** unveiled Galaxy S26 models featuring enhanced AI capabilities and a new privacy shield mode. **Hyundai Motor** will invest \$6.3bn to build an AI data centre robot factory and hydrogen plant in Korea.

In **India**, industrial growth for January was 4% YoY vs. the previous reading of 3.7%. Prime Minister Modi concluded his two-day visit to Israel with an announcement that India and Israel would soon finalise a mutually beneficial Free Trade Agreement. The market regulator has allowed the country's \$385bn actively managed equity funds to park more of their money in gold and silver, giving them greater flexibility. **Bharti Airtel** announced a \$2.2bn investment in its NBFC platform Airtel Money to develop a digital lending business.

In **Mexico**, the economy grew 0.6% YoY in 2025, its weakest expansion since the pandemic. The fourth-quarter current account surplus was \$7.7bn, or less than the \$12.8bn expected. **Citigroup** struck deals to sell an additional 24% of its Mexican retail bank for around \$2.5bn to investors such as private equity firms, a bank and a sovereign wealth fund.

In **Brazil**, February IGP-M inflation index fell 0.73% MoM vs estimates of -0.61%. January's current account deficit was \$8.4bn, ahead of estimates of \$6.6bn. Brazil's lower house approved the ratification of the free trade agreement between Mercosur and the European Union. **Mercado Libre**'s fourth-quarter net revenue beat estimates, coming at \$8.8bn (+44% YoY). However, net income missed as the company continued to invest heavily in its main business lines. **Rede d'Or** missed expectations because of higher costs.

## CORPORATE DEBT

It was a quiet week on credit markets as investors looked for direction. New issuance was a little less buoyant and US-Iran tensions persisted. Nevertheless, the Xover had widened by 10bp to 258bp by Friday morning as uncertainties resurfaced following the collapse of **Market Financial Solutions** (MFS) in the UK. The firm's failure put the focus back on private credit market opacity.

After hitting a low of 70bp in January, IG spreads stood at 78bp. High yield spreads widened by 5bp to 265bp.

In financial new issuance, a segment which is already well ahead of refinancing schedule this year, the only big deal was from **Danske Bank** which sold a T2 bond at a spread of close to 130bp. The hybrid corporate segment, however, saw deals from **Eversource** in USD and **Iberdrola**. **ENGIE** made a big UK acquisition which will be partially funded through a hybrid deal to come. The big high yield deal came from Eutelsat (BB) which raised €1.5bn with two tranches (5 and 7 years).

IG gained 0.11% over the week, taking YTD gains to 1.25%. High yield was more or less flat (+0.05%) and is now up 1.05% YTD.

### 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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