



EDMOND DE ROTHSCHILD ASSET MANAGEMENT

MARKET FLASH: AMERICAN INTERVENTIONISM MAKES A STRONG COMEBACK, WHILE CENTRAL BANKS CAN WAIT

- The year began with Donald Trump's shift to an interventionist and international policy.
- Within the zone, activity data has remained positive and credit has continued to recover.
- In this environment, we have maintained our approach with a modest positive allocation to fixed income, a neutral position on equities and a negative view on the dollar. Our constructive view on credit and emerging fixed income markets is unchanged.

The year began with Donald Trump's shift to an interventionist and international policy following direct US intervention in Venezuela and the arrest of President Nicolas Maduro. Challenged domestically ahead of the mid-term elections, Donald Trump has revived the "Monroe doctrine" to take control of oil reserves and exports, at the expense of China, deploy US corporate capex, and deport foreign - notably Chinese and Russian - advisors. Considering the cost of extraction and the amount of investment needed to re-establish oil production in Venezuela, the short-term impact on oil prices should remain modest; however, this should help contain inflationary pressure over the longer term. This intervention comes on top of existing tensions between Saudi Arabia, the UAE and Yemen and the United States and Iran and is accentuating geopolitical uncertainties, with threats of further US intervention in Greenland, Colombia or Cuba. China is also flexing its muscles with the deployment of military exercises on an unprecedented scale to show the world it could intervene in Taiwan. The country is also threatening Japan with a possible embargo on dual-use goods used for both civilian and military purposes, after Mrs Taikachi's statement on the military protection that her country could offer Taiwan. In Europe, this intervention is unlikely to facilitate talks that are currently stalling with the Russians, though the Europe-US agreement to provide security guarantees to Ukraine does constitute a step forward.

In the United States, economic data continued to show resilience, despite the shrinking need for labour with 7.15 million job vacancies rather than the 7.65 million expected. The ISM services index picked up in December, rising to 54.4 (higher than the expected 52.2 and November's 52.6 reading), after Q3 data was published at the end of the year with consumer spending up +2.6% and GDP growth at +4.3%. The Conference Board's confidence index also rose to 89.1 in December. Fed member Barkin pointed out that greater caution was called for after the latest rate cuts.

Having halted its balance sheet reduction in December, the Fed was able to manage tensions using refinancing and reverse repo tools, though amounts are at their highest since 2021.

The Fed may resume reducing its T-bill purchases if the interbank market remains under control until the tax payment deadline in April.

In the Eurozone, French Parliament failed to agree on a budget before the end of the year, despite the surprising vote on social security funding, which will bring the deficit to -5.3% in 2026, emphasising the need for additional measures to limit the latter to 5%, either through an executive order or article 49.3 of the French constitution. Within the zone, activity data has remained positive. Credit has continued to recover, with private sector credit growth at +3.4% year-over-year in November, up from +3.0% in October. Inflation has held steady in the Eurozone. Headline inflation readings were aligned with expectations at 2% year-over-year in December, down from 2.1% in November, and core inflation was lower than anticipated at 2.3% versus 2.4%, reflecting a slowdown in consumer durables and service prices. For capital markets, this publication has lowered the likelihood of the ECB raising its rates at the end of 2026.

In Asia, Mrs Takaichi had to offer guarantees when presenting her budget to ease inflation fears currently weighing on the country's interest rates. In China, the most recent inflation readings - with a rebound to +0.8% in December from +0.7% in November owing to rising food prices - has lessened the urgent need for intervention to address economic weakness, as illustrated by China's Producer Price index which remains in negative territory (-1.9% versus -2.1%).

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EUROPEAN EQUITIES

European equity indices began the year on a strong footing and outperformed their US counterparts, notably on account of the strong returns delivered by European semiconductor and defence players. Eurozone inflation readings were in line or even above expectations in France and Germany, fuelling optimism as we enter the new year.

On the geopolitical front, the week's events revived tensions - notably the US military operation in Caracas that led to the arrest and exfiltration of Venezuelan President Nicolás Maduro. Furthermore, Russia rejected the European peace plan, while a Russian tanker was hit by a drone in the Black Sea. This is a favourable environment for European defence companies.

Finally, we are observing a sharp market rotation in Europe. Value, the "winning style" last year, is losing ground as investors rotate into more expensive market segments. Market broadening is gathering speed, and small caps - particularly cyclical and domestic players - are outperforming spectacularly.

From a microeconomic perspective, as tensions rise, the events unfolding in Venezuela are supporting energy and defence stocks, such as **Rheinmetall**, **Leonardo** and **SAAB**. **Dassault Aviation** published its 2025 deliveries and order intakes, confirming that orders for Rafale aircraft beat the initial guidance. Meanwhile, investors are returning to the technology sector: the analyst upgrade on **TSMC**, followed by **ASML**, as well as **Microchip Technology's** optimism on demand and its upward revision to sales estimates supported European technology stocks, and notably **STMicroelectronics**. Conversely, food industry players were impacted by China's decision to apply tariffs on several European dairy products. In the UK,

consumer spending remains under pressure: **Tesco** reported disappointing sales for the Christmas period, and **AB Foods**, owner of Primark, is weakened by declining sales. Within the banking sector, **BNP Paribas** benefited from an analyst upgrade, unlike **Societe Generale**, which was downgraded after a stellar market run in 2025.

US EQUITIES

US equity markets continued to rise in the first week of January, as the Dow Jones closed at two new record highs and the S&P500 hit a new all-time high, despite some consolidation mid-week. During the week, the S&P500 and Nasdaq indices posted a modest rise, while the Russell 2000 outperformed, lifted by renewed enthusiasm over cyclical and small caps.

On the macro front, the data has continued to paint a mixed picture. While the ISM manufacturing index remained in contraction zone in December, confirming persistent weakness for the industrial sector, the ISM services index rebounded to 54.4, indicating that the economy continues to be driven by services. The ADP and JOLTS employment indicators suggest that the labour market is gradually normalising, though productivity came in above expectations and wage costs remain contained. In this environment, investors are anticipating a more gradual path for interest rates in 2026, while still focusing on December's job report. On the geopolitical front, Donald Trump's statements continue to feed volatility: recurring criticisms of the Fed, the upcoming appointment of a new Fed Chair, threats to limit dividends and stock buybacks for defence contractors and plans to ban large institutional investors from buying additional single-family homes. In addition, investors have kept a close eye on the events unfolding in Venezuela, including the possibility of larger oil flows into the United States and the selective easing of sanctions, against a backdrop of persisting strategic tensions with Russia and China.

Within the energy sector, integrated majors and other oil and oil services firms are benefiting from the developments in Venezuela, as flows towards the United States gradually normalise. The financial sector also performed well, notably regional banks and several asset managers, supported by the strong returns delivered by small caps and by new credit issuance at the beginning of the year. Finally, healthcare remains on a positive trend, buoyed by several M&A deals and analysts' earnings revisions, which are confirming the sector's status as a relatively safe haven in an uncertain market environment.

EMERGING MARKETS

The MSCI EM index was up 1.64% in USD this week (as of Thursday). Korea, Taiwan, Brazil and Mexico rose by 6.44%, 3.46%, 2.41%, and 1.55% respectively. India and China fell back -1.16% and -0.05%.

In **China**, the manufacturing PMI rebounded by 0.9ppt to 50.1 in December, exceeding the 50-expansion threshold for the first time since April and suggesting an improved momentum in manufacturing activities. The CPI grew 0.8% year-over-year in December, in line with consensus forecasts. Much of the rise was driven by food prices, owing to weather disruptions rather than to demand, while the PPI beat expectations, painting a picture of mildly easing deflationary pressures. The Chinese government imposed immediate export controls on dual-use items for military purposes to Japan. Reports indicate that authorities may allow limited Nvidia H200 imports this quarter for selected commercial use. Anta Sports is reported to have entered talks to acquire the Pinault Family's stake in Puma. Vanke is

reportedly preparing a debt restructuring plan amid ongoing financial pressures in the property sector. Minimax, China's first large language model (LLM) company to go public, more than doubled on its first day of trading.

In **Taiwan**, December exports rose 43.44% year-on-year, slightly below the 48.0% estimate. Imports increased 14.91% year-on-year versus the 28.1% estimate. TSMC reported December sales up 20.4% year-on-year, with full-year 2025 revenue up 31.6%. TSMC has secured a one-year U.S. export license which will allow the firm to continue importing American chipmaking equipment for its operations in China.

In **Korea**, President Lee Jae-myung and Xi Jinping signed 15 cooperation agreements across tech innovation, eco-environment, transportation, and trade. Samsung Electronics reported preliminary 4Q25 operating profits of KRW 20 trillion, a more than 100 percent rise from a year earlier. Boston Dynamics unveiled its electric Atlas humanoid robot at CES 2026 and announced a partnership with Google DeepMind to advance AI-powered robotics. LG Electronics reported a 4Q operating loss that was 3 times higher than expected.

In **India**, Donald Trump threatened to impose higher tariffs if the country continues to purchase Russian oil. India's Finance Ministry is considering scrapping the five-year-old restrictions on Chinese firms bidding for government contracts. Germany and India are finalising a submarine manufacturing deal worth at least \$8 billion, including a technology transfer. The government has approved electronics component investments worth \$4.6 billion. Trent reported weak growth numbers, with sales per store continuing to decline sharply by 10% year-on-year. Titan reported a sharp acceleration for the jewellery market, up 40%, ahead of the consensus.

In **Brazil**, the composite PMI rebounded to 52.1 in December from 49.6, with the services PMI jumping to 53.7 from 50.1. Embraer delivered 91 jets in the fourth quarter. Rio Tinto and Glencore could create the world's largest mining company. The market capitalisation of the combined entity would be US\$200bn, while Vale weighs US\$60bn.

In **Mexico**, the Banxico minutes revealed a cautious tone for future interest rate decisions. In December, consumer prices rose 0.28% month-over-month, below the 0.33% estimate. The manufacturing PMI declined to 46.1 from 47.3 in November, marking the fourth consecutive month of contraction.

In **Peru**, Credicorp acquired Hem Bank in the US for US\$180mn, in a small but strategic deal. Peru's Central Bank held interest rates steady at 4.25%.

In **Argentina**, the government raised US\$3bn from private banks to cover the IMF payment due in January.

CORPORATE DEBT

Overlooking geopolitical risk, markets got off to a strong start in 2026. This was particularly the case for credit markets, which successfully absorbed record supply in the primary market. The Euro Investment Grade and High-Yield markets were up 0.45% and 0.57% respectively during the week. Cash indices outperformed derivative indices; the Xover index only narrowed by 1 bp while High-Yield bonds contracted by 18 bp, with more yield compression on B-rated bonds than on BB bonds.

The primary market points to strong investor appetite, with record issuance during the week: €35 billion was issued in the Euro Investment Grade market. Most of these bonds were

largely over-subscribed. Premiums are close to zero and even negative on some issuances. Investor demand was particularly strong on the longer end of the credit yield curve.

On the corporate side, **Veolia**, **L'Oréal**, and **Amprion** issued multi-tranche bonds, with Amprion recording stronger demand for its 20-year tranche. Within financials, **Deutsche Bank** issued a €1 billion Tier 2 bond maturing in 15 years with a first call date in 2036, which drew demand of €7 bn; **BPCE's** Tier 2 bond issuance was more than 12 times oversubscribed. Issuance in the High-Yield primary market is expected to resume next 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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