



EDMOND DE ROTHSCHILD ASSET MANAGEMENT

MARKET FLASH: DONALD TRUMP IS BUSY ON ALL FRONTS

- **After reaching a compromise agreement with the EU on Greenland, Washington is now threatening to increase tariffs for Canada by 100% as punishment for seeking closer ties with China.**
- **The Fed left its rates unchanged as expected even if two FOMC members voted for another cut.**
- **In the eurozone, PMIs are back in expansionary territory and lending is increasing, suggesting that a recovery may be taking shape.**

Friction points are increasing fast for the Trump administration. After reaching a compromise agreement with the EU on Greenland, Washington is now threatening to increase tariffs for Canada by 100% as punishment for seeking closer ties with China. And South Korea could see its export tariffs rise by 15-25% for alleged non-compliance with last year's agreement with the US.

In the Middle East, tension with Iran escalated significantly with reciprocal threats and naval manoeuvres in the Strait of Hormuz. In addition to lower oil production from the exceptional cold snap in the US and disruption to a major oil field in Kazakhstan, the situation fuelled a sharp rise in Brent crude just before the OPEC+ summit on February 1st.

Within the US, the administration is facing another shutdown. After ICE shot and killed a second person in Minneapolis, Democrat senators are refusing to approve the Inland Security budget which primarily funds the immigration police force.

Elsewhere, the Fed left its rates unchanged as expected even if two FOMC members voted for another cut. Jerome Powell said keeping rates close to a neutral level was justified as the US economy was doing well and tensions between inflation and job targets had eased. But the Fed's stance was less accommodating than markets expected and Treasury yields rose while the dollar stopped falling. Kevin Warsh has been nominated by the White House to replace Jerome Powell as Fed chairman. Warsh is currently in favour of more rate cuts but he has always been very keen on fighting inflation, opposing QE and supporting the Fed's independence. If the Senate approves his appointment, the dollar could strengthen and the US yield curve steepen further.

In the eurozone, PMIs are in expansionary territory and lending is increasing so a recovery seems to be taking shape. However, the earnings season rekindled volatility and especially for software companies. Microsoft tumbled by 10% and SAP plunged 16% on higher capex and slowing Cloud growth. In addition, there is a worry that AI could weigh on jobs and hit demand for licenses.

We remain upbeat on equities with a preference for Japan and emerging markets. In fixed income, we are focusing on short maturities, particularly in the US, and on emerging sovereign debt.

EUROPEAN EQUITIES

Four-quarter earnings were the main driver of this week's portfolio switches in the US and Europe. Despite political instability, budget uncertainties and international tensions, the French economy showcased its resilience with a 0.9% rise in GDP for 2025. And French government bonds returned to favour, at least for the moment, after the government survived two no-confidence votes.

Investors were particularly demanding when reacting to results. Any disappointments were immediately penalised both in Europe and the US. Results at **LVMH**, for example, were generally in line and offered some reassurance on demand momentum in Asia but the stock tanked on poor visibility for this year. **H&M** was also punished for being cautious on growth and profitability guidance even if its figures were significantly better than expected. All company results were mixed, both in the US and Europe. Results at Germany's **SAP**, were in line overall but management dragged down the European sector with cloud growth guidance that was lower than expected and also rekindled doubts on possible long term AI disruption. **ASML** results beat consensus as AI demand came in quicker than expected and foundry competition increased, but the stock turned south at the end of the session as investors worried about the group's production capacity. **STMicroelectronics** also fell on mixed demand for its industrial chips. But after two years of market doldrums, the group sees improving demand this year and also benefits from much better visibility. The AI ecosystem is not confined to tech companies alone: **ABB**'s upbeat results showed that the group is well positioned as an equipment supplier to data centres.

US EQUITIES

Wall Street gained ground but at a more moderate pace. The S&P 500 briefly moved above the historic 7,000 level mid-week before slipping back. The Nasdaq gained on a rebound in tech and AI stocks. Small caps, which had outperformed sharply since January 1st, were more hesitant and slightly underperformed large caps. This week's macroeconomic data suggested the US economy was in tune with a "resilient but under control" scenario. In a big surprise, durable goods orders rose along with some regional manufacturing indices but household confidence fell to a 2014 low and there were several indications that the jobs market was losing steam. Elsewhere, there was much talk in Washington over shutdown risk and the likelihood remained strong but dipped slightly as discussions continued. Trade tensions continued in the background as formal talks began on a possible reform of the USMCA agreement with Canada (and Mexico) and persistent uncertainty in relations with Europe. Trading in precious metals was extremely volatile. The gold ounce made a spectacular move to close to \$5,600 but then fell sharply on profit taking.

The technology sector stayed centre stage, gaining 1.23% thanks to AI, semiconductor and cloud/data centre infrastructure plays (notably **Nvidia**, **Texas Instruments**, **Intel**, **Lam Research Corporation**, **Seagate Technology Holdings**, **IBM** and **META**), and despite Microsoft's 10% plunge. The group's Azure guidance was viewed as simply in line but the ongoing rotation out of software stocks also contributed to the sell off as worries mounted that AI might disrupt their economic models.

Energy (+2.68%) was one of the best performing sectors as WTI rallied to above \$65 on increased Middle Eastern tensions and rising geopolitical risk, always a plus for oil majors and oil service companies. Industrials gained 1% on upbeat figures and comments from companies

like **Caterpillar**, **Parker-Hannifin** and **Trane** thanks to persistently robust demand for infrastructure and data centres. Financials also ended the period 0.9% higher on gains for large bank stocks and other payment and financial services companies amid persistently encouraging lending and market conditions. More defensive and consumer sectors, however, came under pressure. Healthcare fell 2.32% partly due to managed care stocks retreating after unfavourable announcements on Medicare Advantage reimbursements. And several medtechs and care providers were weak despite some robust figures from hospitals. Consumer staples slipped 0.94% and consumer discretionary fell 1.58% after mixed results and signs that demand was returning to normal. Investors are focusing on structural growth themes like AI, data centres and energy and reducing exposure to consumer cyclicals.

EMERGING MARKETS

The MSCI EM index gained 3.6% in USD this week. Korea, Brazil, Mexico, China, Taiwan and India rose by 6.9%, 3.6%, 3.3%, 3.1%, 2.5% and 1.6% respectively

In **China**, industrial profits posted their first annual gain since 2021, rising 5.3% YoY in December after a 13% drop in November. Developers reportedly ceased filing regular reports on their "three red lines" leverage metrics. The government is planning a \$29bn capital injection into its biggest insurers through a special government bond sale. At the microeconomic level, **Alibaba** released Qwen3 Max Thinking, its latest AI model. **Anta Sports** agreed to acquire a 29% stake in German sportswear brand Puma for €1.5bn. **AstraZeneca** signed an obesity deal with **CSPC Pharmaceutical** worth up to \$18.5bn.

In **Taiwan**, exports surged about 35% to a record \$640.75bn in 2025.

Korea and Canada signed six MOUs to cooperate in areas including steel, defence, space, AI and key minerals, with Korea hoping to win Canada's \$42bn submarine project. **SK Hynix** announced it would cancel 15.3 million existing treasury shares (2.1% of outstanding equity) to honour its commitment to improving shareholder returns. **Hyundai Motor** reported a fourth-quarter operating profit miss, down almost 20% YoY due to tariffs. On the contrary, **Samsung** announced a special dividend for the fourth quarter of 2025 as well as a results beat.

In **India**, December industrial production rose 7.8% YoY, or ahead of expectations of 5.9%. The government finalised an historic free trade agreement with the European Union after nearly two decades of negotiations. The deal will reduce tariffs on 96.6% of EU goods exports to India. On the corporate side, **Axis Bank**'s net profit rose 3% YoY, beating estimates, supported by 14% loan growth. **UltraTech Cement** delivered a strong beat with net profits jumping 27% YoY.

In **Indonesia**, the equity market sold off after MSCI announced the country's possible demotion to frontier market status.

In **Brazil**, December job losses exceeded estimates in the biggest monthly loss since the height of the Covid-19 pandemic. Brazil's central bank held the Selic rate steady at 15% and signaled that monetary easing would probably begin in March. **China's Aluminum Corp** and **Rio Tinto** agreed to acquire a 68.6% stake in **Companhia Brasileira de Alumínio** for \$904m. The executive management committee approved a 25% tariff on imported steel (nine specific products)

Mexico had a \$2.43bn trade surplus in December, with exports rising 17.2% YoY to \$60.65bn. Manufacturing exports rose 9.8% YoY, though automotive shipments contracted 4.2%. **GF**

Banorte surprised the market with solid results, despite the weak economy. Net income grew 22% YoY thanks to the lower cost of funding and lower provisions.

CORPORATE DEBT

After cutting several times in 2025, the Fed left rates unchanged at its first meeting this year. Jerome Powell was keen to stress that the bank should be patient when assessing inflation and labour market developments in the US. He said that economic risks had abated but that the environment was still highly uncertain.

In Europe, credit markets moved more cautiously this week with High Yield stable over the week and spreads widening by 7bp. The segment underperformed Investment grade (+0.42%) where spreads were unchanged. Financial and corporate perpetual bonds showed resilience. The euro Hybrid and euro AT1 indices gained 0.21% and 0.24%. Performance dispersion stayed higher in European HY bonds with software companies, which have high weightings in the HY euro simple B index, underperforming markedly.

New issuance nevertheless continued apace with 8 new deals raising €6.6bn, taking the YTD tally to €12.6bn. In repeat issuers, **Cheplapharm** and **Vmed** refinanced short maturities. **F.I.S.** (an Italian API CDMO¹) raised €750m with the proceeds going on reimbursing €400m in senior debt and paying out a €312m dividend to shareholders. **Alloheim** (Germany's leading provider of nursing homes for seniors) refinanced its €845m loan and repaid a revolving credit facility worth €45m.

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.

¹ API: Active Pharmaceutical Ingredients / CDMO: Contract Development and Manufacturing Organization.

- 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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