



EDMOND DE ROTHSCHILD ASSET MANAGEMENT

MARKET FLASH: DONALD TRUMP BLOWS HOT AND COLD ON MARKETS

- **Between public pressure on Jerome Powell and threats of intervention in Iran, Donald Trump is fuelling uncertainty; however, the Fed considers its monetary policy appropriate, and no rate cut is expected at the next meeting.**
- **In Japan, the Prime Minister is considering dissolving parliament and calling early elections to strengthen her majority and ease the implementation of her stimulus agenda.**
- **In Europe, long-term yields have fully played their role as a safe haven, falling over the week, while gold has continued to rise.**

Donald Trump is blowing hot and cold on a variety of subjects ranging from geopolitics, the economy and US monetary policy. He has, for example, resumed his aggressive approach to Jerome Powell and asked him point blank to cut rates at the end of January. The Fed chair is also being investigated by the Department of Justice over renovation costs at the Fed. Treasury yields reacted to this atmosphere by trending higher and the dollar slipped but the effects were transitory. Economic data took back control of yield moves: investors were reassured when core inflation came in at 2.6%, or slightly below the 2.7% expected, and long bond yields stabilised. On the other hand, short bond yields rose due to upbeat retail sales in November, better-than-expected rises in advanced regional indicators and a fall in weekly jobless claims. The data confirmed US economic resilience and several Fed officials said current monetary policy was adapted to today's environment. As a result, the Fed is not expected to cut rates at the next FOMC.

Elsewhere, Donald Trump threatened he would intervene in Iran to support demonstrators but then backtracked. Greenland remained centre stage after European leaders offered support. This helped gold's status as a safe haven and the ounce gained ground. Oil prices moved in line with tensions over Iran, rising at the start of the week and then falling back.

Donald Trump's popularity is falling so he is looking to provide support for consumers and property ahead of the midterm elections. His key proposal was to cap credit card interest at 10%. The idea was heavily criticised by CEOs of major US banks like JP Morgan and Bank of America and bank stocks suffered despite generally upbeat results in the first week of reporting. The banks claim the proposal would limit bank lending and therefore consumption.

In Japan, the prime minister is considering dissolving parliament and holding new elections. She wants to capitalise on her popularity to hold greater sway in parliament and get her stimulus policies more easily approved. The news pushed Japanese equities higher with the Topix up by more than 4% over the week.

Amid geopolitical uncertainty, US equity market gains were more subdued. Tech stocks saw some profit taking before TSMC's good figures revived interest in the sector. European government bonds acted as a safe haven and yields fell over the week. Given today's

resilient economic environment, we are still neutral on equities and prefer corporate debt in the fixed income space.

EUROPEAN EQUITIES

Markets traded in line with annual company results and the first macroeconomic indicators of 2025 as a whole. As in 2025, European markets are still being driven by two strong themes. First, defence due to prevailing geopolitical tensions in Ukraine, Iran, Venezuela and now Greenland where a symbolic number of Danish, French and German soldiers have been sent to protect the country. Second, semiconductors, a sector which continues to be underpinned by AI trends.

After two years of recession, Germany's economy grew by 0.2% in 2025. The recovery should continue gradually up to 2027, thanks to government spending, construction and private investments. France continues to suffer from political uncertainty. The 2026 budget has still not been approved. The government has suspended the debates in the Assembly and is getting ready to use the 49.3 guillotine clause or executive orders. The autos sector was also in focus with sentiment divided between political support and industrial caution. Germany's environment minister floated the idea of €3bn in subsidies for electric cars between now and 2029. At the same time, the managing director of Stellantis Europe said that for now there was no "natural demand" for electric cars in Europe.

In company news, European semiconductor stocks extended their rally after TSMC said it expected to increase capex this year by 32%, or much more than expected. **ASML** and **ASM International** gained 6% and 7% over the week, while European small caps **BESI** and **VAT** released preliminary fourth quarter results which provided confirmation that sector momentum was strong. In defence, **Exosens** won its biggest ever order for its new 5G image intensifier tubes and **Exail Technologies**, as expected, finalised its debt refinancing. Elsewhere, **Dassault Aviation** invested \$200m in a start-up focused on drone interception and electronic warfare. **Alstom** signed a €1.4bn contract with Toronto's transport authority to provide 70 new metro trains. **GTT** announced two new tanker orders, taking the number for 2026 already to eleven. The momentum should continue after a record number of LNG project approvals in 2025. In construction, results at **Sika** and **Geberit** were mixed. Restocking rates raised doubts over a possible sector recovery. In the luxury sector, **Richemont** released solid figures with sales that came in better than expected. Even so, the stock ended the period lower after management was cautious on China and margin levels. **Airbus** slightly beat estimates by delivering 793 planes but expectations had been revised down at the beginning of December after some A320 planes were discovered to have defective fuselage panels.

US EQUITIES

Wall Street had a choppy week but ended higher. The S&P 500 hit a record high and small caps continued to outperform, leaving the Russell 2000 sharply ahead since the year began. The S&P 500 and Nasdaq edged higher while mid and small caps did better than large caps on average, a token of the market broadening out rather than being restricted to mega caps. Retail sales came in better than expected, the Empire and Philly Fed provided positive surprises and weekly jobless claims remained muted, another sign of a resilient labour market. In addition, CPI and PPI remained under control with subsections coming in slightly below expectations. As a result, the gradual disinflation scenario is gaining ground against the notion

of a brutal slowdown. The Fed is still sounding a cautious note, thereby ruling out a rapid series of rate cuts and the market is adjusting its anticipations for cuts coming later on this year.

Energy continued to advance, even if WTI fell below \$60 at the end of the period, due to Middle East tensions and the Venezuelan dossier. In contrast, tech and industrials did well, and particularly stocks exposed to semiconductors, AI infrastructure and equipment following TSMC's decision to take capex to record levels. Fresh optimism over investment momentum also lifted sentiment. As mentioned before, Financials were more mixed with banks and credit card companies under pressure due to the credit card interest cap debate while stockbrokers, asset managers and listed stock exchanges benefited from buoyant markets and flows into long-term index management solutions. Healthcare remained relatively strong thanks to resilience among major pharma companies, medtechs and healthcare service providers. The sector is still considered a safe haven as visibility on growth and monetary policy remains limited.

EMERGING MARKETS

The MSCI EM index was up by 1.79% in USD this week as of Thursday. Korea, Mexico, China, Taiwan and Brazil gained 3.22%, 2.99%, 1.92%, 1.42% and 0.69%, respectively. India edged 0.05% lower.

In **China**, December exports in USD rose 6.6% YoY, exceeding the 3.1% estimate, while imports surged 5.7% YoY versus the 0.9% forecast. December M2 money supply rose 8.5% YoY, exceeding the 8.0% estimate. The PBoC announced plans to pump RMB 900bn in additional funds into private and technology firms while slashing key policy relending rates by 0.25%. The Canadian government reduced the tariffs on Chinese EV imports from 100% to 6%. The authorities raised the margin financing deposit ratio to 100% from 80%, while stock market transaction volume reached all-time highs. The government said it would remove VAT rebates for 249 products, including solar cells, from April 1, 2026. China and the EU reached a breakthrough to replace EV tariffs by a minimum pricing system, marking a significant development in trade relations. Beijing probed **Trip.com** over alleged antitrust conduct. **BYD** is reportedly in talks with Ford to supply batteries for their hybrid vehicle models to Ford's overseas factories. **Alibaba** announced a Qwen AI app, which would be linked to their other services like Taobao, Alipay and Amap.

Taiwan and the US signed a \$250bn trade agreement, lowering tariffs to 15% in exchange for major investments in the US tech industry.

In **Korea**, the central bank held its policy rate unchanged at 2.50%, in line with expectations. December import prices rose 0.3% YoY, while export prices increased 5.5%. President Lee Jae Myung met Japanese Prime Minister Sanae Takaichi and agreed to step up cooperation in economic security and defence. **SK Hynix** announced a \$13bn investment in a new plant to meet growing demand for memory chips. **LG energy solutions** reported a miss due to slowing US EV sales.

In **India**, December CPI came in at 1.33% YoY, or below the 1.56% estimate. Germany's Chancellor visited India this week, engaging with Prime Minister Modi in discussions focused on sketching a new strategic geographical zone termed 'Indo-Europe' amid global geopolitical disruptions. **TCS** reported a broadly inline quarter with an EPS miss due to a higher one time

cost from new labour laws. Infosys reported a beat and raised its FY26 revenue growth guidance to 3-3.5% from 2-3%.

In **Brazil**, December inflation rose 4.26% YoY, or in line with expectations. November retail sales rose 1.3% YoY, or ahead of the 0.1% expected. President Lula signed Brazil's 2026 budget into law, set at \$1.2 trillion, while announcing individual income tax changes for 2026, including total exemption for income up to R\$5,000 monthly and gradual tax reduction for income up to R\$7,350 monthly. Homebuilders reported broadly positive fourth-quarter results: **Plano & Plano** contracted sales surged 92% YoY to R\$1.60bn, **Cury** contracted sales rose 9.3% YoY to R\$1.56bn, **Lavvi** contracted sales increased 3.8% YoY to R\$1.42bn, while **Direcional** contracted sales fell 3.9% YoY to R\$1.52bn

In **Mexico**, October capital investment fell 5.5% YoY, or more than the 3.9% drop expected. Private consumption rose 4.2% YoY in October versus a revised 3.8% in September. President Sheinbaum held a phone call with US President Donald Trump stating that both countries will continue security cooperation. **Chedraui** sees 2026 EBITDA margin improving 15-35 basis points, with Mexico sales forecast to jump 8%-9% and US sales up 2%-3%, though US migration policy is expected to hurt results in the first half. The central bank's monthly data for November showed double digit NII growth, 9% loan growth and stable NPLs for **Banorte**.

CORPORATE DEBT

In the week between January 9 and 15, credit indices reacted quickly to escalating tensions from a possible US intervention in Iran and just as quickly to the subsequent de-escalation. Investment Grade gained 0.21% while High Yield was flat. IG spreads were unchanged but widened by 3bp for High Yield. The Xover ended the week 1bp wider at 242 after hitting 246bp mid week. The euro-hedged ICE COCO index returned 0.18% and tightened by 5bp.

New financial bond issuance continued apace after the market kicked off the new year on form. **Unipol** raised €1bn with an RT 1 and AT1 issues included **RBI** (€650m) and **UniCredit** (€1bn). Tier 2 bonds were sold by **National Australia Bank**, **Nykredit**, **Erste Group**, **Commerzbank** and **Bayerische Landesbank** (all at spreads between 110bp and 135bp). **Banca IFIS** raised €400m with a Tier 2 issue with a bit of pick-up at a 200bp spread. New deals were generally easily absorbed with order books well covered. However, order books for deals without premiums were thinner and aftermarket dealing more hesitant. UniCredit's AT1, for example, saw its order book shrink from €4bn to 1.7bn and it struggled in the aftermarket with an ask at 99.5%.

In corporate hybrid issues, **ENI** raised €1bn at 4.125% and **Heimstaden Bostadt** €500m at 5% and with a 2031 call. In a smaller deal, Germany's **Vossloh** (railway equipment) raised €200m at 5.375% and with a 2031 call. All were easily absorbed by the market.

In High Yield new issuance, traditionally a bit late to get going, well-known, generally low beta and even IG/HY crossover companies sold bonds. These included Belden (4.25%), **Contour Global** (4.375%), **Q Park** (3.875%) and **Inwit** (3.75%). In a slightly riskier space, **United Group**

(telecoms) raised €1.13bn with a B-rated floater¹ at Euribor²3M +325bp and a PIK³ note at 8.875%. Sugar producer **Tereos** sold a 6NC2⁴ bond at 8.125%.

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.

¹ A bond whose coupon varies over time, indexed to a reference rate (for example 3-month Euribor) plus a fixed spread.

² Benchmark interbank rate in the euro area for three-month loans between banks, used as a reference for many floating-rate loans and bonds.

³ PIK (Payment-In-Kind): A bond on which interest is paid in kind rather than in cash, either by being added to the principal (capitalised) or by being paid in additional bonds. This structure is riskier for investors and therefore typically comes with a higher coupon.

⁴ 6NC2 (6-year, Non-Callable 2 years): A bond with a 6-year maturity that cannot be redeemed by the issuer during the first 2 years, but can be called (redeemed early) from year 3 onwards.

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Société anonyme governed by an executive board and a supervisory board with capital of 11.033.769 euros

AMF Registration number GP 04000015

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