



EDMOND DE ROTHSCHILD ASSET MANAGEMENT

MARKET FLASH: IS THIS THE FIRST TASTE OF A “TRUMP FED”?

- The Fed resumed cutting rates with a 25bp reduction. However, investors focused on the FOMC's projections.
- This situation is good news for risk appetite and equity indices made further gains.
- Elsewhere, China released disappointing data on retail sales, industrial production and investment but the country's equity markets brushed them off.

As widely expected since Jerome Powell spoke at Jackson Hole, the Fed resumed cutting rates with a 25bp reduction. However, investors focused on the FOMC's projections. On average, they suggest two more cuts this year (vs. one previously expected). Jerome Powell said the moves would be motivated by the deteriorating labour market. He no longer thinks it is robust. That said, he recognises that the market slowdown in job creation is largely due to immigration restrictions reducing labour supply. The Fed even revised down its unemployment forecasts for 2026 from 4.5% to 4.4% while revising growth and inflation higher. Nevertheless, the risks of a sudden worsening in the jobs picture outweigh worries over inflation. The Fed has adopted a “risk control strategy” and opted for preventive rate cuts. The meeting also saw Donald Trump's nominee Stephen Miran dissenting from the consensus view by arguing for a 50bp cut and projecting 150bp more before the end of the year. His expectations are clearly exaggerated and show that he is motivated by political considerations designed to please the president. This gives us some idea of what future Trump nominees, and even the next Fed chair, could end up advocating. Christopher Waller and Michelle Bowman chose not to vote for an aggressive 50bp rate cut so their chances of succeeding Jerome Powell have probably fallen.

The question of the Fed's independence will come to the fore in 2026 but the bank's stance has already moved towards a more accommodating position even if investors see no significant risks of a US recession. This situation is good news for risk appetite and equity indices made further gains even though they had already factored in the rate cut. Small US companies outperformed as they are more sensitive to funding conditions. European markets rose in tandem with US indices and they brushed off an upturn in government bond yields at the end of the period. This was occasioned by profit taking after the FOMC but also by the Bank of England and Bank of Japan turning slightly more hawkish than expected. The Bank of England decided to reduce its quantitative tightening envelope from £100bn to £70bn. More importantly, it said it was more worried about inflation than downward risks to growth and jobs. This raises the bar for new rate cut decisions. The Bank of Japan announced a new move towards monetary policy normalisation by selling ETFs and listed property funds. Two people on its monetary policy committee voted to raise rates. Japan's government bond yields rose further, pushing global bond yields higher at the end of the week but the reaction from Yen trading and the Topix index was more measured.

Elsewhere, China released disappointing data on retails sales, industrial production and investment but the country's equity markets brushed them off. China's equity indices were pushed higher by tech sector outperformance even if Beijing banned companies from buying Nvidia's chips, a move that suggests the government is now convinced that China produces chips that are just as good as the less sophisticated chips Washington has authorised for exports.

We have turned positive on emerging country debt as it should benefit from the Fed's markedly accommodating tone as well as US dollar depreciation. We expect the dollar to start falling again once the profit taking following the Fed meeting has stopped. We are still cautious on equity markets. They have already discounted a chunk of optimistic developments and US markets more than most.

EUROPEAN EQUITIES

Ahead of the Fed's monetary policy meeting, markets adopted a cautious stance. Investors are still worried about the Fed's independence after Donald Trump appealed a court decision blocking his attempts to remove Lisa Cook. The euro hit a four-year high of 1.18 against the dollar and the gold ounce broke above \$3,700. After a 9-month pause, and as mostly expected, the Fed resumed its rate cutting cycle with a 25bp reduction. Chair Jerome Powell recognised that the labour market had worsened but investors were relieved to see that growth is expected to slow less than previously thought.

In company news, **Rheinmetall** intends to acquire **NVL** at the beginning of 2026, a move that seeks to widen its portfolio to include military shipbuilding. The group is keen to diversify and reinforce its position in defence. Trading in **Novo Nordisk** has been difficult for several months but the share now looks to be benefiting from the new management's recovery plans. There are now upbeat expectations for its Alzheimer drug tests and the FDA has made its first moves against unofficial **Wegovy** dupes. In the energy sector, **GTT** is being lifted by expectations that demand for LNG cargo ships will increase in the future. The trend should boost GTT's order book and ensure robust profits. Donald Trump's UK visit resulted in **GSK** joining other pharma mega gaps with US investments. The UK group is to invest \$30bn in US-based production and R&D over the next five years. VusionGroup's first half figures provided confirmation that the company had robust execution and a hyper-growth model, evidenced in its roll out at Walmart. The group raised guidance for 2025.

US EQUITIES

The Fed's decision to cut rates by 25bp sent US indices to new all-time highs. The S&P 500 gained 0.72% and the Nasdaq 100 1.51%. The Fed said the cut was warranted by labour markets weakness and added that the economy was still strong. Weekly jobless claims still fell after the previous week's surge. Donald Trump appealed to the Supreme Court to get Fed governor Lisa Cook removed. Stephen Miran, the president's new man on the FOMC, was alone in voting for a 50bp cut. Donald Trump is due to meet Xi Jinping today, September 19 to discuss the acquisition of TikTok's US business by a consortium of US companies. It will also be question of China ordering Boeing planes in exchange for reduced customs duties.

The tech sector led gains. **Intel** soared 23% after **Nvidia** bought a stake. Cybersecurity also shone with **CrowdStrike** jumping 15.3% on better-than-expected prospects, especially in AI. Consumer stocks were more mixed. **Abercrombie & Fitch** gained 2.7% after a broker upgrade citing the brand's strength and robust footfall in its stores. In contrast, **Darden Restaurants** slumped 9.4% after the group's sales guidance turned more cautious. Financials benefited from a more accommodating monetary stance. Banks and asset management companies should gain from more M&A deals and stronger mortgage lending. **Radian Group** gained 6% after buying **Inigo Limited**. Healthcare was the scene of big deals. **89BIO** rocketed by 85.4% on news **Roche** was paying up to \$3.5bn for it. In specialist financial services, **FactSet** plunged 16.8% after management issued cautious guidance on margin and profit growth. Gold consolidated after recent gains and traded around \$3,650/oz.

EMERGING MARKETS

The MSCI EM index was up 1.57% in USD this week as of Thursday. All major emerging markets continued to trend higher. Korea, Brazil, Taiwan, India, China, and Mexico, gained 3.25%, 3.08%, 2.08%, 1.43%, 0.93% and 0.12%, respectively

In **China**, M2 Money supply grew 8.8% YoY in August vs. 8.6% expected. August retail sales rose 3.4% YoY, slightly below the 3.8% expected. August industrial production rose 5.2% YoY vs. 5.6% expected. After reaching a preliminary framework agreement, Donald Trump and Xi Jinping will hold a call this Friday to discuss the TikTok sale to Oracle and other US investors. As part of the on-going trade talks, China dropped its Google antitrust probe but ruled that Nvidia violated anti-monopoly laws with its 2020 acquisition of Mellanox Tech. To further weaken Donald Trump's semiconductor chip bargain power, China's Foreign Ministry said that the China-specific RTX Pro 600D chip was expensive and not good enough while Huawei unveiled its detailed roadmap for its Ascend AI chip till 2028. CATL raised its 2026 production guidance for suppliers to 1.1TWh, implying 50% YoY growth.

In **Taiwan**, the central bank kept the benchmark rate steady at 2% despite tariff risks. Donald Trump declined to approve a more than \$400m military aid package for Taiwan as he seeks a trade deal with China.

In **Korea**, August's export price index fell 1% YoY, while the import price index was down 2.2%. The Industry minister and US Commerce Secretary met in New York to hold follow-up talks on the two countries' trade deal reached in July.

In **India**, August CPI rose 2.07% YoY vs. the 2.11% rise expected. August exports were up 6.7% YoY after 7.3% in the previous reading, while imports fell 10.1% YoY, down from 8.6%. Net direct tax collections rose 9.18% YoY. The securities regulator relaxed initial public offering rules for very large private companies, allowing firms with a market cap above 5 trillion Indian rupees to launch IPOs as small as 150 billion rupees and dilute 2.5% equity. Leading FMCG companies in India, including P&G, Emami, and HUL, announced price cuts on various products, following the government's announcement of GST cuts. Hyundai Motor India and a trade union announced the signing of a long-term wage settlement agreement for 2024-2027. Tata Technologies said it had signed a definitive agreement to acquire 100 per cent of ES-Tech GmbH for a total cash consideration of €75m.

In **Brazil**, the central bank kept the Selic rate stable at 15% as expected. Inflation for the first ten day of September rose 0.21% MoM, or slightly below expectations. Economic activity for July rose 1.15% YoY when it was seen rising 1.40%.

In **Mexico**, August same stores sales rose 7.6% YoY vs. 2.4% in the previous reading. The leaders of Canada and Mexico committed to close coordination ahead of next year's high-stakes review of their trade pact with the US.

CORPORATE DEBT

There is one thing we can be certain of: the Fed is on the investors' side. The FOMC's decision to cut rates had a marginal impact on future rate cut forecasts but it set in motion a rate cut cycle that could provide significant support for bond markets. In the absence of other big news items, bond markets had a good week with high yield returning 0.27% and CoCos 0.28%. Investment grade ended the period 0.10% higher. Fixed maturity funds saw inflows amounting to €400m.

Week after week, spreads have been tightening. This is good news for companies looking to issue bonds and it was a busy week for new issuance. New deals included **Veolia** which raised €850m at 4.32% with a hybrid issue callable in 2033. The order book amounted to €4.7bn. In the high yield space, **Valeo** (Ba1/BB) raised €500m at 4.625% with a 2032 maturity. The issue was 5.5 times oversubscribed. Even more popular was the first deal from **Renault Credit International** (RCI) which raised €400m at 6.125% with an AT1 and an order book totalling €7.4bn.

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.

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