



EDMOND DE ROTHSCHILD ASSET MANAGEMENT

MARKET FLASH: MARKETS SUCCUMB TO A BOUT OF NERVES

- Divergent statements from Fed members regarding rate cuts are increasing market unease.
- The US government shutdown, now the longest ever, is prompting both sides in Congress to engage in dialogue which may soon result in a compromise.
- Across the eurozone, the Composite PMI continues to rise, and economic data has been unexpectedly positive since the end of October.

Markets started November with a slight bout of the nerves. Investors had been surprised by Jerome Powell's less accommodating tone in the previous week as his comments seemed to lessen the chances of a December rate cut. Fed governors are blowing hot and cold at the moment: Stephen Miran and Mary Daly said the fragile labour market would warrant more rate cuts while Lorie Logan and Beth Hammack disagreed, citing strong and persistent inflation. The US shutdown is now the longest ever, beating the previous 35-day shutdown at the end of 2018. However, the possibility of negative economic consequences is pushing both sides in Congress to resume talks so a compromise might be reached in the coming days. Most economic data is still inaccessible, making life difficult for the Fed and investors. But ISM and PMI are still coming out. Manufacturing ISM edged lower and remained below the 50 watershed, a token of the industrial sector's malaise. The price index fell but new orders and jobs rose, admittedly to rather soft levels of 49.4 and 46, respectively. Services PMI and ISM fared better, rising to 54.8 and 52.4. The ISM new orders index was even much better, jumping from 50.4 to 56.2, or significantly higher than expected. The jobs index also rose slightly. On the other hand, the services price index rose to a high not seen since the end of 2022, a reflection of current inflationary pressures. As for the labour market, this week's data were contradictory: ADP showed a slight increase in job creations in October while Challenger Job Cuts indicated that redundancies had risen sharply. Not many data points but still an impact on government bond markets: Treasury yields rose after Services ISM came out and fell back when the Challenger and other alternative data sources warned of a labour market slowdown. The dollar echoed the same shifts.

In Europe, PMIs showed services were strong in Spain, Italy and Germany but not in France. For the eurozone as a whole, Composite PMI rose to 52.5. Economic data have surprised on the upside since the end of October. In the UK, the Bank of England left rates unchanged but opened the door to a future cut. After the latest inflation reading came in better than expected, the vote in favour of this decision was close. The real risk concerns economic growth as Chancellor Rachel Reeves wants to roll out a more restrictive budget.

Elsewhere, US-China relations improved. China cut duties on US imports to 24% for a year after Washington reduced tariffs on fentanyl imports. Beijing also suspended controls on certain rare earth exports. In the US, the Supreme Court started to review appeals against

the Trump administration's tariffs. The Court's first opinion suggested judges do not share Donald Trump's vision on using emergency powers but a definitive ruling will take some time to be made.

Meanwhile, another reason for profit taking was provided by some leading US banking CEOs and the IMF warning of a possible correction due to lofty equity valuations. AI stocks were particularly hard hit.

We continue to be cautious on risk assets, and US equities in particular. We are neutral on duration and prefer emerging country debt and higher-rated companies.

EUROPEAN EQUITIES

Risk aversion resurfaced in the absence of positive catalysts: central banks are sitting on the sidelines and geopolitical discussions have stalled. The chances of the ECB cutting rates again by the end of 2025 seem to be diminishing following last week's monetary policy meeting. And yet inflation edged lower to 2.1% to flirt with the bank's target.

The results season continued to dictate sector switches. Autos outperformed after **BMW's** figures were boosted by a first new-generation model triggering higher-than-expected demand. It was the same story at **Ryanair** which beat expectations and revised its forecast on passenger numbers higher. **Rheinmetall's** sales were slightly higher than expected. The group announced stronger demand from Germany's army so the group could see exceptional growth. In energy, **GTT** revised guidance higher after a third-quarter results beat which showcased the strength of its main business. New orders are running at record levels due to demand for new ships. **Veolia's** results also allowed the group to reiterate its short to medium term objectives.

In stark contrast, the healthcare sector was hit by **Novo Nordisk's** results. The Danish group revised guidance lower for the fourth time this year due to slowing sales of its flagship treatments. **Biomérieux** also trimmed guidance on growth due to the flu season starting later. However, the group's medium-term outlook is unchanged.

US EQUITIES

After several up weeks, US markets suffered sharp losses with the S&P 500 down 1.8% and the Nasdaq 100 off 2.8%. Labour market data raised questions on the US cycle's strength. Over the first 10 months of 2025, more than 1 million people were laid off. The figures contrast with the ADP report which said 42,000 jobs had been created in October but were enough to rekindle fears of a severe slowdown in the labour market. Caution was also reinforced by today's tense political and budgetary environment. The federal shutdown entered its sixth week, making it the longest ever. At the same time, several Supreme Court conservatives expressed doubts on whether Donald Trump's tariffs were actually legal, opening the door to a possible easing in trade barriers.

After some leading US bank CEOs repeated warnings on markets overheating, profit taking picked up speed in sectors most exposed to tech and AI. **Nvidia** (-7.1%), **AMD** (-7.2%) and **CoreWeave** (-20%) were the biggest casualties. In contrast, **Amazon** was more or less flat after announcing a \$38bn partnership with **OpenAI**. **Microsoft** (-4%) said the main brake on its AI growth was not a chip shortage but physical and energy constraints in its data centres.

Alphabet is gearing up for a massive investment focused on renewable energy and data centres in Germany.

In consumption, **Tesla** (-2.3%) once again stole the limelight with a shareholders' vote giving Elon Musk a gigantic pay packet. The money could allow him to take his stake to 25%.

Healthcare stocks were mixed: **Amgen** jumped 5.8% on upbeat results. **Pfizer** (+1%) and **Novo Nordisk** (- 2.8%) remained locked in a bidding war for **Metsera**, a biotech specialised in the growing weight loss drug sector.

Financials were more resilient thanks to some easing in bond yields. **Berkshire Hathaway** (+3.3%) announced a 17% rise in net profits and now has \$382bn in cash. Warren Buffett confirmed that Greg Abel would succeed him before the end of the year.

EMERGING MARKETS

The MSCI EM index was down 0.53% in USD this week as of Thursday. Brazil, China and Mexico advanced by 2.78%, 1.55% and 0.2%, respectively. Korea, Taiwan and India shed by 3.34%, 2.33% and 0.50%, respectively

In **China**, October exports fell 1.1% YoY, the first drop since March 2024, driven by a 25% drop in exports to the US. The government increased subsidies to cut energy bills by up to half for some of the country's largest data centres if they use locally produced chips. The administration will suspend 24% tariffs on some US goods effective November 10th for 1-year. Local authorities are looking to buy US wheat for the first time in 1 year. The US will suspend port fees on China-linked vessels starting from November 10 for a year. President Xi met Russia's Prime Minister in Beijing to advance talks on cooperation in traditional sectors such as energy, agriculture, and aerospace. October Macau GGR jumped 15.9% YoY and 31.7% MoM, or much better than street estimates of 11%. **Starbucks** sold 60% of its **China** unit to Boyu at a \$4bn valuation.

In **Taiwan**, October exports rose 49.7% YoY, or better than the 31.5% rise expected, while imports were up 14.6% YoY or less than the 25% expected. **Accton** reported a strong set of results

In **Korea**, October exports rose 3.6%, while imports were down 1.5%. **Samsung SDI** is in talks to supply ESS battery cells to **Tesla** in a deal that could worth \$2.1bn; the supply contract is reported to be 10GWh per annum for a period of three years.

In **India**, October Manufacturing and Services PMI accelerated to 59.2 and 60.4 vs. 58.4 and 59.9. Bank credit growth for September was up 10.4% YoY. **Larsen & Toubro** won a \$3.4bn contract to develop wind power with **Hitachi Energy** off the coast of the Netherlands and Germany. **Mahindra** had a stellar quarter and raised tractor sales guidance. **SBI** bank reported a beat on all fronts with better-than-expected growth and margins. **Sun Pharma** results were largely in line with good growth in India and the US speciality business. **Amber** disappointed on weak margins due to the higher copper price, weak AC demand and GST reduction impact on inventories.

In **Brazil**, the central bank held the Selic rate constant at 15%. October Manufacturing PMI was 48.2 vs. 46.5 and services PMI was 47.7 vs. 46.3. September industrial production rose 2% YoY or more than the 1.9% expected. **Rede d'Or's** results beat expectations by 16% on a stronger ramp up of capacity and resilient insurance business. **Itau** reported solid results with stable asset quality and high profitability. **Eletrobras** posted better-than-expected third-quarter

results on higher realised prices. **Renner** disappointed expectations with muted retail sales. **Raia** outperformed peers with healthy SSS. **Ternium** increased its stake in **Usiminas**. **Nubank** and Amazon announced a partnership to integrate NuPay in Amazon checkout.

In **Mexico**, October Manufacturing PMI was 49.5 vs. 49.6 in September. **Banorte's** results were in line with the consensus with reduced guidance for loan growth and bonus dividends above expectations. The **Amazon-Rappi** partnership gained traction with the launch of Amazon now.

CORPORATE DEBT

This week, Investment Grade shed 0.24% and High Yield 0.19% with spreads widening by 4bp and 6bp, respectively. Government bond yields edged higher amid economic data resilience. The euro-hedged ICE CoCo index ended 0.21% lower.

High Yield new issuance remained strong with deals from **Schaeffler**, **New Immo** (Auchan's property vehicle) and **Picard**. The Picard issue was only the second Euro CCC deal in 2025, a difficult year for CCC issuers. The bond held up well in secondary market trading.

The primary hybrid market remained very busy with deals from **Verizon** (a PerpNC5.5 in euro and sterling tranches) and from **NextEra** (a PerpNC5.5¹ and a PerpNC8.5 in euro). The order book for the euro deals was around 4 times oversubscribed.

Results from financials remained upbeat. **Eurobank** and **BBVA** sold euro-denominated AT1 bonds. **Standard Chartered** issued an AT1 PerpNC10 in USD and the order book was 5.5 times oversubscribed.

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.

¹ PerpNC "Perpetual Non-Callable": a bond with no final maturity date that cannot be redeemed or called by the issuer during the first 5.5 years.

- 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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