# MARKET FLASH: WALL STREET CONTINUES TO STAND OUT FROM THE CROWD

- **The Republicans, under the leadership of D. Trump, have taken control of the House of Representatives.**
- **Germany is preparing for political upheaval with a vote of confidence scheduled for December.**
- **Markets have continued to rotate into exclusively US assets in another illustration of American exceptionalism.**

**Donald Trump achieved complete control of Congress over the week after Republicans won the House of Representatives. They had previously gained control of the Senate more easily. The party only has a narrow majority in the House but it clears the way for the new administration to make its mark in economic, fiscal and foreign trade areas as well as in energy sovereignty. It means the transition can proceed calmly, leaving the new president free to form his cabinet and choose key people. Already, the first appointments -Tom Homan at immigration, Marco Rubio as State Secretary and Mike Waltz to head up national security- have set the tone: this will be a highly confident administration ready to roll out an aggressive programme.**

**We should, however, add some nuance. In the background, certain republican senators seem determined to maintain a semblance of independence and keep some distance from key measures like higher trade tariffs that could stoke inflation.**

**In Europe, German chancellor Olaf Scholz is to ask for a vote of confidence in December, a move that will formally dissolve the Bundestag. Friedrich Merz (CDU) has emerged as a possible replacement. He appears to take a rather pragmatic approach to the country's investment needs and seems more open to some fiscal easing over infrastructure investments but in return for government spending cuts. These political upheavals are playing out in an increasingly tense social climate. Discussions with trade unions are likely to be difficult, especially with Verdi, the civil service union, which has demanded an aggressive 8% wage rise, a sharp contrast with the more reasonable agreement reached with IG Metall. Parliamentary elections are expected to be held in February 2025 and speculation over a new budgetary roadmap is already rife. That said, any fiscal easing will take time so not much will change before the second half of 2025.**

**In the run-up to Donald Trump's inauguration next January, markets have continued to rotate into exclusively US assets in another illustration of American exceptionalism.**

**The health of the US economy was reflected in the Fed's Senior Loan Officer Opinion Survey into bank loans (October 2024). It showed that corporate and household lending standards had continued to improve from the October 2023 low. Credit card usage has also been improving. Banks are now more likely to approve prime and super-prime borrowers and demand is expected to grow in the next six months due to expectations borrowers will be spending more.**

**More generally, financial conditions have been getting better in the last year, judging from lower lending requirements, tighter high-yield bond spreads, real equity returns and better exchange rates. All this is likely to have positive effects on the real economy at least for the next three to six months.**

**Amid today's dollar strength and downbeat global export prospects, we remain fully invested in equities. We are still tactically overweight the US and continue to like Chinese equities. We remain positive on carry, especially in investment grade credit and shorter maturities.**

## EUROPEAN EQUITIES

European markets had a mixed week with trading still dominated by the aftermath to Donald Trump's election, weak Chinese demand and disparate comments from companies on their-third quarter results. With more than half of Stoxx 600 figures now in, only a few sectors have surprised on the upside and management comments on autos and chemicals have generally been downbeat.

This week, Germany's **Brenntag** (chemicals) missed expectations due to higher costs and **Bayer** cited weak demand while revising down full-year targets. After a poor third quarter for the semiconductor sector, a few brighter signals emerged. Global player **ASML**, which had significantly disappointed investors with its third-quarter order book, sounded a more optimistic note at its capital markets day by vaunting AI potential. The group expects sales to rise between 8-14% over the next five years. Similarly, Germany's **Infineon**, which is exposed to troubled sectors like autos and industry, expects demand to improve by the end of this year. The comments helped European tech stocks outperform over the period. Elsewhere, **Springer Nature**, a leader in the global research publishing industry; performed well after its stock market listing, aided by various broker buy recommendations..

## US EQUITIES

The S&P 500 ended the period down 0.9% and the Nasdaq lost 1%. The Russell 2000 gave back 4% after the previous week's surge. Jerome Powell hogged the headlines last night. The Fed chief said he was reassured by the US economy's resilience and suggested caution over future rate cuts.

Elsewhere, Donald Trump confirmed that he intended to set up a Department of Government Efficiency. The news triggered a sharp market reaction among defence stocks and those linked to other government departments. The prospect of budget cuts hit **Booz Allen**, (-15.7%), **Lockheed Martin** (-5.54%) and **Northrop Grumman** (-6.25%).

In entertainment news, **Disney** (+8.2%) reported upbeat figures for its fiscal fourth quarter. Management also announced that growth would accelerate in 2025 due to a recovery in theme parks and expanding streaming service margins. Another streaming giant, **Netflix** (+3.95%) said that it now had more than 70 million subscribers to its AdvertisingVOD, a 75% increase since last May.

In healthcare, Donald Trump appointed Robert Kennedy Jnr as health secretary, pending Senate approval. Markets appeared to be unconvinced as the nominee thinks vaccines are dangerous and he also wants to cap prices for expensive drugs. As a result, Big Pharma tumbled with **Lilly** down 5.6%, **J&J** 2% lower and **Pfizer** edging 0.8% lower.

In tech, **AMD** (-5.8%) said it was laying off 4% of its employees to align resources with bigger growth opportunities, i.e. AI. The group wants to compete more efficiently with **NVIDIA** (+1%) which is expected to unveil its third-quarter figures on November 20. **Cisco** slipped 1.2% but announced a slight results beat due to solid AI demand and the contribution of **Splunk**, a company it acquired in March 2024 to reinforce its cyber security division.

This week's macro indicators were upbeat with consumer confidence at its highest level since last April, another indication of US household resilience. Investors appear to be just as confident. The VIX volatility index had its second down week and hit a low not seen since July.

## EMERGING MARKETS

The MSCI EM index was down 4.5% this week as of Thursday's close. Major Asian markets were the hardest hit, with Korea, China and Taiwan down 7.1%, 5.8%, and 5.3%, respectively. India lost 2.8% while Brazil outperformed by ending the period flat.

In **China**, October CPI rose 0.3% YoY, or below the 0.4% estimated. PPI fell -2.9%, vs -2.5% forecast. Industrial output increased 5.3% YoY, while retail sales rose 4.8%, or ahead of the 3.8% expected, the fastest expansion in eight months. The government added two public holidays to the calendar, taking the total to 13 days from 2025. China plans to cut the home purchase deed tax to 1% from 3%. According to the Ministry of Transportation, parcel volume was up 29% during the Double 11 shopping festival. **Tencent** reported solid third quarter results, with advertising revenue and margin ahead of expectations. **JD.com** also announced strong third-quarter results, thanks to a favorable trade-in policy given its high market share in Home Appliances and Consumer Electronics. **BiliBili**'s strong mobile games and advertising business supported its solid third-quarter results and achieved quarterly profitability for the first time. **NetEase**'s quarter was in line, with improved pipeline visibility.

In **Taiwan**, **Hon Hai**'s third-quarter profit beat consensus. The company guided higher ASP for AI sales next year but gross margin will trend lower.

In **Korea**, **Samsung Electronic** said it would be buying back about $7bn of shares over the next year.

In **India**, October CPI was higher at 6.29% vs. the 5.9% expected, led by a 10.9% spike in food prices. September industrial production rose 3.1% YoY, or higher than the 2.5% estimated. **Eicher Motor**'s quarterly results missed expectations on margins due to higher marketing spend.

In **Indonesia**, **Grab**'s third-quarter results were a healthy beat across the board with improving profitability as product investment began to bear fruit. **Sea Ltd** announced robust third-quarter numbers, ahead of market expectations, led by gaming and easing E-commerce pressure.

In **Brazil**, **Hapvida** announced soft results due to a lawsuit provision. **NuBank** delivered weaker-than-expected revenue growth during the third quarter.

In **Argentina**, inflation declined to 2.7% MoM in October, or below the 3.0% expected, the lowest level in three years, thanks to fiscal balance.

# CORPORATE DEBT

## CREDIT

It was a good week for credit markets with investment grade gaining 0.4% and high yield 0.2%. The rise was driven by a slight drop in bond yields and in spite of risk premiums edging higher. The Xover ended the week around 300bp amid persistently low volatility. The high-yield earnings season drew to a close and new issuance was thin. However, in investment grade, **TotalEnergies** raised €2.5bn with a jumbo hybrid issue in two tranches.

With most results from major financial firms now in, new deals resumed with 4 CoCo issues in Europe and a senior green bond from the **National Bank of Greece**. Euro CoCos gained 0.34% over the week, taking year-to-date returns to 12.8%.

M&A is still a hot issue in the financial sector. Spain extended the approval process for the **BBVA/Sabadell** deal to look more closely at the fair trading consequences. There were also rumours that **Commerzbank** might make defensive acquisitions to ward off attempts by **UniCredit** to increase its stake. **Banco BPM** bought a stake in **Monte dei Paschi**. There is clearly lots of cash looking for an investment.

**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.

• Quantitative easing describes unorthodox monetary policy from a central bank in exceptional economic conditions.

• Stress Test: a process which simulates extreme but possible economic and financial conditions so as to assess any impact on banks and measure their resilience to these events.

• 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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EDMOND DE ROTHSCHILD ASSET MANAGEMENT (FRANCE)

47, rue du Faubourg Saint-Honoré 75401 Paris Cedex 08

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332.652.536 R.C.S. Paris