



EDMOND DE ROTHSCHILD ASSET MANAGEMENT

MARKET FLASH: TALKS ARE CONTINUING BUT DRAGGING OUT

- In the US, this week's data tended to reinforce the idea of knock-on inflation, both from Donald Trump's tariffs and from services, even though the US Treasury said that tariffs deemed illegal in court would be replaced in July.
- France's GDP growth in the first quarter came in at a resilient 0.3% while Germany revised down its growth forecasts for 2026 to 0.5% from 1% and for 2027 to 0.9% vs. 1.7%.
- China's first quarter GDP rose 5%, or more than the 4.8% expected, thanks to industrial production growing 5.7%.

Market trends continued to hang on US-Iran talks and the start to negotiations between Lebanon and Israel. The first round of talks in Islamabad last weekend collapsed when Washington refused to give Tehran control of the Strait of Hormuz and Iran objected to its nuclear programme being restricted. The US then started a blockade of Iran's ports and sent more troops to the zone. Donald Trump also warned Americans that prices could stay high for some time. China called for de-escalation.

Nevertheless, there were signs over the week that talks could resume. Israel and Lebanon agreed on a 10-day ceasefire, Tehran hinted that traffic might pass freely through the Strait of Hormuz along the Omani coast and that Iran's enriched uranium stockpile could be sent to a trustworthy third-party country. There was also mention of a suspension of Iran's nuclear programme but both sides disagreed on whether it should be for 5 or 20 years. Around 30 countries led by France and the UK said they were preparing to send a fleet to secure the Strait of Hormuz when conditions were right. Both sides are a long way apart but at the end of the week there was a move towards a temporary 60-day ceasefire which would help Hormuz reopen but push back any lasting peace agreement.

In the US, this week's data tended to reinforce the idea of knock-on inflation from Donald Trump's tariffs even if the US Treasury said tariffs deemed illegal in court would be replaced in July. Add in services inflation as migration policy has reduced the number of workers and maintained labour market tensions despite modest job creation figures. March wages rose 3.9% according to the Atlanta Fed. Total inflation was at an annualised 3.3%, up from 2.4% and underlying inflation edged higher to 2.6% vs. 2.5%. Energy inflation was 10.9%. Producer price inflation ex energy and food stayed relatively under control at 3.8%. US inflation expectations jumped to 5.8% over a year, up from 3.8%. Medium term inflation expectations, which are closely followed by the Fed, rose by a more reasonable extent to 3.4% vs. 3.2%. Michigan University's consumer confidence indicators plunged to 47.6 this month, down from 53.3 in March. Small business confidence fell to 95.8 in March from 98.8 in February. Central bank rhetoric seems to be on the side of no move on rates (Alberto Musalem, St Louis Fed) with inflation set to hit 3% this year. But some like Beth Hammack (Cleveland Fed) say a hike cannot be ruled out.

In Europe, Germany announced anti-inflation measures. Italy also unveiled a €1bn stimulus plan but was told by the EU that it could not do more without infringing UE budgetary rules. France is still hostage to its deficit and so simply announced structural electrification measures. European inflation rose to 2.6% in March from 2.5% with basic inflation unchanged at 2.3%. France's GDP growth in the first quarter came in at a resilient 0.3% while Germany revised down its growth forecasts for 2026 to 0.5% from 1% and for 2027 to 0.9% vs. 1.7%. These changes reflect the IMF's estimates of the varying impact fossil fuel dependency has on countries. Given the lack of data and news, the latest comments from ECB officials suggest rates will be unchanged in April before a possible hike. Joachim Nagel thinks that raising rates as soon as this month would be a mistake.

China's first quarter GDP rose 5%, or more than the 4.8% expected, thanks to industrial production growing 5.7%. Retail sales only contributed 1.7%, or less than the 2.8% expected.

In spite of doubts fuelled by negotiating ploys, talks are continuing so we are maintaining exposure to risk assets and corporate debt and will add on any weakness. We are still upbeat on duration, and especially at the short end of the curve, as a more sustainable resolution to the ongoing conflict would help expectations of central bank rates to be revised down.

EUROPEAN EQUITIES

The new earning season began this week in Europe. Close to 8% of STOXX 600 companies reported figures. The list included several big hitters like ASML, LVMH and Hermès and they showcased European equity momentum so far this year.

In international news, a major political shift occurred in Hungary. The opposition party won a substantial parliamentary majority, allowing Peter Magyar, a pro-European conservative, to be elected prime minister. This marks a turning point which should help ease relations with the European Union and make it easier to provide financial support to Ukraine. Under Viktor Orbán's stewardship, relations with Brussels had been particularly tense. In other news, the European Union signed a preliminary agreement to reduce steel imports by close to 50%. The European sector had been under pressure for several years. Customs tariffs will be doubled above a set quota to help boost domestic production and allow European steel makers to raise capacity utilisation, possibly from 65% to 80%.

Company earnings reports were mixed. The figures from luxury companies were generally disappointing. **LVMH** missed expectations due to weakness in Fashion and Leather goods while **Hermès** saw earnings advance but much less than expected. **Kering** also fell on flat earnings even if the figures reflected sequential improvement, mainly due to jewellery. The group also unveiled its new ReconKering strategic plan which aims to double its operating margins over the medium term. In technology, **ASML** released robust figures and raised guidance for this year but the market reaction was cautious due to lower growth prospects for this quarter. **Capgemini** announced a restructuring plan in Spain with AI-linked redundancies and **Nemetschek** bought HCSS, its biggest ever acquisition, to reinforce its infrastructure presence in North America. In industry and construction, **Sika's** better-than-expected results reassured the market and the group said momentum in Europe was more favourable than in the US. **Technip Energies** won two contracts in Gabon to modernise a refinery. On the flip side, **Alstom** scrapped its free cash flow and margin targets due to less favourable medium-term prospects. **Covivio** released strong results thanks to Germany's residential market and European hotels. **ID Logistics** signed several contracts in Brazil and

Wise gave a very upbeat trading update that confirmed persistently strong momentum with a 27% jump in cross-border payments.

US EQUITIES

Wall Street moved into record territory as the rebound continued. The S&P 500 jumped 3.29 %, the Nasdaq Composite 5.24 % and the Russell 2000 ended the period 3.38% higher. The S&P 500 hit all-time highs.

IT (+6.39%) dominated sector returns over the week. The IGV software index enjoyed a spectacular rebound (+13%) from what now look like oversold levels during the March correction. **GitLab** gained on news of higher integration with Google Cloud, **Cloudflare** from a broker upgrade on the company's position in AI infrastructure and **Okta** from improved sentiment on renewals and AI integration in security. In semiconductors, **TSMC** raised 2026 guidance, highlighting persistently strong AI demand. **Broadcom** rose after its partnership with Meta in custom chips was extended. Communication services (+5.47%) also pushed higher as AI and computing power news continued to lift major internet platforms and digital advertising. **Snap Inc** stood out after an upbeat prelims' announcement and a redundancy plan for 16% of its workforce which was seen as a boost to efficiency. Several large platform and media groups rose on expectations of strong advertising demand despite the international situation.

Consumer discretionary (+4.58%) also outperformed. **Ford** and **General Motors** gained on broker upgrades based on a more favourable product mix and a more disciplined approach to electrification. **Tesla** rose as investors looked beyond the EV cycle to physical AI areas like robotaxis and robotics. Financials (+2.49%) made more modest gains as major investment banks (**JPMorgan**, **Bank of America**, **Citi**, **Morgan Stanley**) reported strong figures. **Wells Fargo** remained under pressure after net interest income was considered disappointing. In asset management, **BlackRock** reported robust inflows, despite some weaker areas, and sounded a more reassuring note on private credit.

Defensives and several traditional cyclical sectors underperformed. Investors rotated from consumer staples (-1.34%) and utilities (-1.28%) into growth stocks despite upbeat results from companies like **PepsiCo** where like-for-like growth was better than expected and guidance reiterated. Materials (-0.86%) and industrials (-0.64%) were hit by energy and input cost worries even if companies like **PPG Industries** pre-announced better-than-expected results and unveiled significant price increases. Healthcare slipped 0.54% on cautious guidance from companies like **Abbott Laboratories**.

EMERGING MARKETS

The MSCI EM index was up by 3.63% in USD as of Thursday's close. Korea, Taiwan, China, India and Brazil gained 6.95%, 6.04%, 3.29%, 0.93% and 0.4%, respectively. Mexico was down 1.22%

In **China**, producer prices rose 0.5% YoY in March after a 0.9% drop in February, ending over three years of factory deflation. First-quarter exports rose 15% YoY, the fastest pace since 2022. Tech exports accelerated dramatically, with chip exports surging 85% YoY, the fastest since 2013. President Xi Jinping met Russia's foreign minister, pledging to strengthen strategic coordination amid global turbulence. **CATL's** first-quarter net income jumped 49% YoY, beating estimates. **Alibaba** launched its "Happy Oyster" AI model designed to generate 3D

environments, interactive videos, and game content. Chinese memory chipmaker **YMTC** plans to build two new fabs, doubling production capacity. **Moutai** 2025 annual sales declined for the first time since listing.

In **South Korea**, exports for the first ten days of April were up by 36.7% YoY vs. the previous reading of 55.6%. Imports for the first ten days grew by 12.7% vs. the previous reading of 21.7%. Import prices posted their biggest surge since 1998, jumping 16.1% MoM in March.

In **Taiwan**, **TSMC**'s first-quarter net income jumped 58% YoY, beating estimates. The company raised its 2026 revenue growth forecast to above 30% from around 30% previously, and said capex would trend toward the high end of its \$52-56bn range.

In **India**, March CPI rose 3.40% YoY, or slightly below estimates of 3.48% but up from 3.21% in February. Wholesale price inflation accelerated to 3.88% YoY in March from 2.13% in February, exceeding estimates of 3.60%. **ICICI Pru Life**'s fourth-quarter net income rose 58% YoY, beating estimates. Despite geopolitical concerns and OEM price hikes, early April demand for 2Ws and CVs remained resilient, with retail volumes up mid-to high teens YoY.

In **Mexico**, the US Treasury Secretary and Mexico's Finance Minister met to discuss critical minerals and the USMCA review process. The government is in the process of modernising its trade agreement with the EU. Fintech **Plata** raised \$405m, valuing the company at \$5bn—the highest in Latin America for a privately-held financial services firm. **Flex Ltd** will invest \$1bn up to 2028 in Mexico to produce equipment for data centres.

In **Brazil**, IGP-10 inflation rose 2.94% MoM in April, or above estimates of 2.50%. Retail sales for February grew 0.2% YoY, or below the 1.2% expected. **Vale** posted a solid production report, in line with expectations on iron ore and copper and ahead on nickel production. Price realisation was also in line with consensus. **Meli** announced a new set of measures to face higher competition, such as a 20% reduction on take rates for some categories, and sellers using fulfilment for products above R\$200. **GIC** announced the sale of R\$2.5bn of **Rede d'or**.

In **Peru**, the Presidential election result remained wide open and keenly contested. Alberto Fujimori is leading the race, with 17% of votes, and the second place is still unknown.

In **Chile**, banks reported strong preliminary results for the first quarter of 2026.

CORPORATE DEBT

Markets consolidated but held onto a bullish bias after the previous week's strong rally. The Xover slipped 6bp to 284bp and bonds on average gained 30bp. Cyclical and property companies slightly outperformed.

Companies took advantage of the lull to issue debt before the earnings season. There were 5 new issues in the euro high yield space, some in sectors in the news like **Softbank** which raised money to pay for its OpenAI investment, and **Golden Goose** (luxury footwear). The issues were easily placed. Subordinated financial debt was also active with AT deals from **Rabobank** and **BNP Paribas** which performed well in spite of limited issue premiums. And **Allianz** issued an RT1. The most surprising aspect was the strength of hybrid corporate debt issuance with scheduled deals from **Transcanada**, **Adecco** and **Redeia** but also more opportunistic offers from **Roquette**, **Nutresa** and **OCP**. Demand is still there but investors are being selective.

On the secondary market, there was still strong demand due to fixed maturity fund launches.

Spreads mostly returned to pre-conflict levels. Rate hikes have yet to return so yields still offer an extra 50bp above levels at the beginning of the conflict.

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.

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