EDMOND DE ROTHSCHILD

# EDMOND DE ROTHSCHILD ASSET MANAGEMENT MARKET FLASH: WHAT IMPACT ARE THE TRUMP ADMINISTRATION'S DECLARATIONS HAVING?

- **The US administration is ready to talk to China about lowering tariffs to 50-65%, in exchange for concessions.**
- **Uncertainty and trade tensions have weighed on macroeconomic data, with a slight deterioration in US and European PMI indices, and US companies now considering passing on higher costs in sales prices.**
- **In the US, several members of the Federal Reserve are supporting a cautious approach to rate cuts, because of inflationary risks linked to the trade war. In Europe, the ECB's chief economist is not ruling out a rate cut in the near future.**

**The Trump administration has continued to disrupt markets with contradictory assertions. First, the head of the National Economic Council said Donald Trump had asked his teams if he could sack Jerome Powell. The markets were quick to react: equities and the dollar tumbled and government bond yields spiked. But the next day, Donald Trump backtracked, declaring that he did not want to get rid of the Fed chair but simply have him cut rates more quickly. Markets bounced as this about turn reduced the risk of investors losing faith in the Fed's independence.**

**On the trade war front, Donald Trump and Scott Bessent took a more conciliatory approach to China by declaring that tariffs would not stay as high for long. Washington said it was open to bilateral talks with Beijing to cut tariffs to 50-60%, providing the Chinese also made concessions. Several media outlets said Beijing was considering suspending 125% tariffs on US imports, notably medical equipment, some industrial chemicals and US planes. But there has been no official confirmation from Beijing that this is the case so the doubts have contributed to market volatility.**

**Washington is optimistic that trade agreements will be reached with several countries before the third quarter. If so, that would limit the damage from the trade war before the end of the year. In any case, markets liked the declarations and equities and the dollar rose while Treasury yields fell back. The possibility of a lull in the trade war also sent European assets higher.**

**However, uncertainty and trade tensions have weighed on macroeconomic data. US PMIs are still in expansionary territory but have been retreating. The composite index came in at 51.2 when it was expected at 52 and services saw some deterioration. In addition, the Fed's Beige Book said worried companies were considering passing on higher costs to consumers even if demand is slowing. In the eurozone, consumer confidence fell to minus 16.7, when it was expected at minus 15.1, its third monthly drop in a row. April's PMIs also showed that services had fallen from 50.5 to 49.7. Manufacturing bucked the trend by coming in at 48.7, or better than the 47.7 expected but this was due a rebound in new export orders as companies anticipated higher tariffs. Given the situation, the ECB needs to continue on its monetary easing path, especially as eurozone inflation is likely to fall because of the strong euro and lower oil prices. Brent crude came under pressure after Kazakhstan said it would look after its own interests rather than those of the OPEC+ cartel, a sign of mounting tensions among members.**

**Caution is still the watchword for central banks. In the US, several Fed members affirmed that inflationary risk from the trade war meant it was urgent not to rush matters. In Europe, the ECB's head economist said a 50bp rate cut in the near future could not be ruled out as the economic outlook had worsened and inflation had fallen. In Japan, prices in the Tokyo area showed encouraging signs of rising even if trade tensions with the US would warrant the Bank of Japan moving cautiously. Overall, these declarations have reassured investors that central banks will intervene if necessary.**

**In today's persistently volatile markets, we remain cautious on risk assets overall and government bonds. We prefer investment grade credit.**

## EUROPEAN EQUITIES

Indices continued on their rebound as inflammatory statements in the trade war eased and first quarter results poured in. Cyclicals like base products, chemicals, autos, tech and banks enjoyed the biggest bounces while defensives like telecoms, property, utilities and agrifood saw more modest rises or even falls.

In contrast to today's angst, most European companies reported upbeat revenues and profitability and most maintained guidance.

But there were four major exceptions: **Dassault Systèmes** reduced its margin guidance slightly and the stock's PE fell to a 10-year low. In luxury, Kering's figures fell short of expectations due to weakness at **Gucci**. In telecom equipment makers, **Nokia** reaffirmed full-year guidance but its first-quarter results came in below expectations. And new orders at **Thalès** missed expectations but the Defence division grew by 15%.

**L'Oréal**, **Danone**, **Nestlé** and **Unilever** were among companies boasting revenue beats, often because of price increases. RevPar at hotel chain **Accor** beat expectations by 5%. **Air Liquide** confirmed its objectives thanks to strong momentum in its Electronics and Healthcare divisions and **Saint-Gobain** managed to make strong price increases. In autos, sales at **Michelin** rose thanks to the product mix and higher prices. **Renault**, the only vehicle manufacturer with little exposure to the trade war as it is absent from the US and China, maintained margin guidance while indicating that its new models had got off to a good start. A few weeks before its investors' day, **SAP** once again impressed investors with strong results and cash flow.

## US EQUITIES

So far, April has been the most volatile month on Wall Street since the 2020 Covid crisis. But this week was positive for markets as the S&P 500 jumped 3.8%, the Nasdaq 5.4% and the Russell 2000 4.1%.

Stimulus was provided by promises to reduce tariffs on Chinese imports to the US and upbeat company results.

In tech, **Alphabet** (+5.4%) stood up to economic tensions with a 12% rise in sales thanks to its advertising, services and cloud divisions. Other Magnificent 7 stocks like **Amazon** and **Microsoft** gained 8% and 5.8%. Semiconductor plays **Nvidia** (+4.9%) and **Broadcom** (+10%) also joined the party. **Intel** soared 13.5% but the stock tumbled 7% after the bell when the group reported a quarterly loss and issued softer-than-expected guidance. Its new CEO Lip-Bu Tan announced a recovery plan. The group is aiming to cut running costs by $500m this year and by $1bn in 2026

The consumer discretionary sector gained 5.4%. **Tesla** was up 7.5% despite a 71% plunge in net first quarter revenues as sales in Europe fell sharply. Elon Musk said he would be reducing his involvement in the Trump administration to devote more time to Tesla. **Hasbro** (+14.7 %) saw its stock soar 15% after a results beat and no change to guidance despite global tariff tensions. **Boeing** (+8.9%) sold some parts of its Digital Aviation Solutions subsidiary for $10.55bn in a move to refocus on core activities and cut costs.

Given difficulties forecasting economic and political developments, **United Airlines** (+4.1%) delivered two sets of guidance, one for a stable economy and the other for a recession. And **American Airlines** (+1.6%) simply withdrew annual guidance following reduced demand for domestic flights in the first quarter.

Consumer staples fell over the week, led by household goods producer **Procter & Gamble** (-5.9%) which reported disappointing third-quarter results and revised annual guidance lower. Falling consumer confidence was also reflected in results at **PepsiCo** (-5.3%) which revised down guidance, citing the impact of tariffs on its production chains.

Gold continued to act as a safe haven and hit a record $3,400/oz. The dollar slipped 0.2% against the euro to 1.14.

Some sectors like financials (+3.4%), healthcare (+1.4%) and materials (+2.7%) gained ground despite prevailing uncertainties.

## EMERGING MARKETS

The MSCI EM index was up 2.33% in USD this as of Thursday on signs of a de-escalation in the tariff war. Mexico, Brazil, China and India gained 7.71%, 6.75%, 2.96% and 2.39%, respectively. Korea and Taiwan were also up 0.96% and 0.82%.

In **China**, the PBoC kept its 1-Year and 5-Year LPR unchanged after the latest meeting at 3.10% and 3.60%, respectively. China's foreign minister said the US and China were not yet in talks on tariffs, but Donald Trump wants to exempt carmakers from tariffs on imported car parts and China is considering exemption on some US goods, including medical equipment and industrial chemicals. The Politburo press conference vowed more efforts to prepare for "external shocks" and will set up new financing and policy tools. Several local governments introduced new measures to boost spending from inbound tourists as part of the consumption stimulus plan. **PopMart** reported first-quarter results with both Chinese and overseas markets seeing growth accelerate, the fifth straight quarter of acceleration.

In **Taiwan**, March exports rose 12.5% YoY, or less than the 16.1% expected. The March unemployment rate was 3.36%, or marginally below the 3.40% expected. Industrial production in March grew 13.65% YoY vs. expectations for 15.20%. **TSMC** plans to begin production of its A14 fabrication process in 2028 and an intermediary A16 chip process for late 2026.

In **Korea**, first-quarter GDP contracted by 0.2% QoQ vs. expectation of a 0.1% expansion. Exports for the first twenty days of April declined5.2% YoY vs. previous reading of 4.5%. The producer price index in March rose 1.3% YoY vs. 1.5% in the previous reading. The industry minister will visit Washington this week to start trade negotiations with the US. **SK Hynix** reported a 158% jump in March-quarter operating income, driven by resilient demand for AI memory chips and stockpiling ahead of US tariffs. The US is urging Japan and South Korea to commit to a $44bn Alaska gas project

**India** took punitive measures against Pakistan, including downgrading diplomatic ties and suspending a water-sharing treaty after at least 26 people were killed and more than a dozen injured when gunmen opened fire on tourists in a picturesque mountain town in Indian-controlled Kashmir. India's key industry output rose 3.8% YoY in March versus a revised 3.4% in February. US vice-president JD Vance met Modi in New Delhi on Monday and their respective speeches said India and US had finalised terms of reference for a trade agreement. The RBI finalised guidelines on LCR that will improve the LCR of banks by around 6 percentage points, in-line with their recent stance of regulatory easing. **HUL** reported an in-line quarter and management turned positive on the near term volume outlook. **Nestle** reported a slight beat driven by a surprise on margins. **HCL'**s print was ahead of expectations and management adopted a more optimistic stance on demand vs. peers.

In Mexico, CPI for the first fifteen days of April rose 3.96% YoY vs. 3.85% expected. **Grupo Modelo** will invest $3.6bn in Mexico from 2025 to 2027. **Chipotle** plans to start opening outposts in Mexico next year in a partnership with **Alsea SAB**.

In **Brazil**, April consumer confidence rose to 84.8 from 84.3. **JBS SA**, the world's largest meat supplier, received approval from the SEC for its proposed share listing in New York. **Sabesp** and **Aegea** are preparing to bid for Sao Paulo State's $4bn in water and sewer concessions. **Nu bank** won government approval to operate as a bank in Mexico, allowing it to expand its product offerings. **Vale SA**'s first-quarter earnings missed forecasts due to weakening iron ore prices and lower production.

## CORPORATE DEBT

### CREDIT

It was the calm after the storm on bond markets. April had started with the US declaring a trade war on the rest of the world but recent declarations from the Trump administration had helped ease tension. First, tariff rollouts were delayed by 90 days, then there was an indication talks would proceed in the meantime and this week the Fed's independence was preserved after Donald Trump said he no longer wanted to sack Jerome Powell.

High yield spreads peaked at more than 440bp at the height of the crisis but the Xover has now fallen back to less than 350bp as investor nerves recover for a time. For HY cash bonds, the average spread is now close to 360bp, or 80bp wider than the tightest level seen this year but still below the historic average of close to 400bp. Investment grade spreads fell by close to 10bp to 106bp over the week. Euro CoCo spreads, a good indication of market beta and risk appetite, fell to 420bp from close to 460bp in the preceding week.

In contrast, 10-year Bund rates were unchanged at around 2.47% which is where they were trading before Berlin announced its stimulus programme.

The lull delivered mild relief to the new issues market which saw some subordinated financial deals, notably **NationWide** which raised €650m with a T2 2035 callable in 2030 and **Ageas** with a T2 2056 callable in 2035 (€500m). And in high yield, dormant since the beginning of April, Italy's **Lottomatica** refinanced for more than €1bn with a 2031 maturity.

## 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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