



Asset Management Market Flash: The world gets a breather for a few weeks

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- **Trump refrains from attacking Iran ahead of the elections, but the conflict continues to provide lasting support for energy prices.**
- **Inflation remains elevated, while the Fed and the ECB are gradually adopting a slightly more accommodative tone.**
- **Short- and intermediate-term bonds remain preferred, while technology stocks benefit from strong earnings prospects.**

Political reality finally caught up with Donald Trump and forced him to recognise that he would not launch a fresh attack on Iran before the midterm elections at the beginning of November. The latest polls showed that the Democrats' lead had continued to grow even in historically strong Republican states. Prediction markets now put the chance of a blue wave that could give control of the Senate to the Democrats at 65%. Unsurprisingly, Americans are unhappy because of higher petrol and diesel prices; they are set to stay high in spite of this week's tax reductions as new refining capacity has been destroyed and, more importantly, physical oil prices have rebounded to \$136. This level may seem surprising as crude oil shipments through the Strait of Hormuz are now back to pre-conflict levels and Brent crude briefly dipped below \$100. But intermediary costs for exports from the Middle East have soared, with transport up 1,000% and insurance and wages also up. So even without a military escalation, the ongoing conflict has fuelled a structural rise in energy prices, along with the sort of inflationary pressure that the recent ECB and Fed minutes emphasised. This means that their monetary tightening cycles are probably not over but it is worth pointing out that recent comments from monetary committee members indicate a shift towards a slightly more dovish stance. Several Fed governors have argued for a pause in October, pending the publication of more economic data. And for some ECB governors, there had so far been no sign of knock-on inflation from energy prices. But the most significant statement this week came from ECB chair Christine Lagarde who, in a clear reference to soaring government bond yields in Europe (and especially France), declared that the bank had the means to deal with market turbulence. France's National Rally press conference also reassured investors by indicating that the party took fiscal matters seriously and was monitoring tensions on France's debt. It was a successful exercise in political communication even if the party's actual economic proposals were not very credible.

We believe that upward pressure on France's spread with Germany should now ease. Given the fact that expectations for further benchmark rate hikes are already high, we remain buyers of duration with a focus on short and medium term maturities. We are also still upbeat on equity markets as we approach the earnings season. We expect the figures to show once again that companies, and especially AI plays, are in excellent financial health.

European equities

Europe lost ground as oil prices rose and bond market volatility surged. Persistent Middle East tensions, especially on shipping routes in the Straits of Hormuz and Bab el-Mandeb, rekindled worries over oil supplies. The situation is obviously good for oil company shares but bad for inflation, company costs



and household spending. Government bond yields remained at multi year highs due to worries over inflation and budgets. France was particularly in focus as the OAT-Bund spread remained wide, damaging the country's debt and assets. Central banks have so far been cautious: they are not adverse to adjusting monetary policy but higher energy prices and economic resilience mean the chances of any rapid rate cuts are slim.

In company news, industrials and tech plays stayed centre stage. In its 2030 strategic plan, **Air Liquide** is targeting an acceleration in growth with bigger margins thanks notably to electronic activities. The plan also includes the group's first ever share buyback programme. **BE Semiconductor Industries** was among the week's biggest drops. Investors are worried about the adoption of its hybrid bonding technology being delayed. In defence and infrastructure, **Thales** should continue to benefit from rising defence spending in Europe. The outlook for **Spie** also looks promising: electricity grids need updating and investments in electrification are set to rise, especially in Germany. In energy, more expensive oil and supply risks are underpinning producers, refiners and infrastructure. **Repsol** is enjoying high refining margins and **Equinor**, **Serica Energy** and **Glencore** now have a more favourable pricing environment. **GTT** is well placed in LNG transport and storage while **EDP** is benefiting from investment in renewables and electricity grids. On the flip side, high energy prices are problematic for the chemicals sector and are piling pressure on **Yara**, **Lanxess** and **Solvay**. In healthcare, **Sanofi** is still seen as a defensive play: growth in sales of Dupixent could help the group report a slight results beat. In luxury, **Richemont's** jewellery segment is proving resilient thanks to **Cartier** and **Van Cleef & Arpels**.

US equities

In a mixed week on Wall Street, the **S&P 500** gained 0.6%, the **Nasdaq 100** dipped 0.3% and the **Russell 2000** ended the period 1.4% lower. Indices hit fresh highs at the beginning of the week but were pulled down on Thursday by rising Treasury yields and falls in AI stocks. Oil pushed higher with Brent crude moving back above the symbolic \$100 level to \$103.7.

Tech lost 0.6%. The SOX semiconductor index tumbled 3.9% as investors worried about AI's capacity to translate into actual profits. Press reports that **OpenAI's** annualised sales would be close to \$50bn, or less than expected previously, weighed on the AI ecosystem. As a result, **Oracle** plunged 5.5% on Thursday and **Broadcom** was off 4.4% amid uncertainty over how compute capacity for **OpenAI** would be funded.

Two M&A deals also hit the headlines. **PTC** (industrial software) soared 33.5% on Monday after the group was bought by France's **Schneider Electric** in a deal worth around \$22.6bn. **Option Care Health** (home healthcare services) jumped 32.9% on news that it had been acquired by **McKesson** and private equity company **CD&R** for around \$5.8bn.

Healthcare gained 1.2% thanks to **Eli Lilly** (+2.3%) which rose on news that a new GLP1 factory would be built in Texas. Energy (+3.8 %) benefited from a rise in oil prices.

Consumption was up 1.4 %. **PepsiCo's** quarterly figures beat estimates with sales at \$25.3bn but the group cut EPS growth guidance for this year to 2.5-3.5%.

Emerging markets

The MSCI EM was down 0.6% in USD over the week to Thursday. China performed in line with the index, while its A-share market was closed for most of the week for the Golden Holiday. Brazil continued to



rally, ending up 12.2%, on the presidential election results. Mexico and Taiwan also advanced by 1.7% and 1.3%, respectively. India and Korea retreated further, losing 1.7% and 5.6%.

In **China**, Golden Week data was weaker than expected: daily average cross-regional trips rose just 0.6% YoY, and new-home sales in 25 major cities rose 15% YoY but were still 9% below the 2024 holiday. The US FCC suggested it might restrict high-end optical module imports. The PBoC issued a statement rejecting claims that the renminbi was undervalued and ruling out devaluation to get a trading advantage, ahead of the EU-China trade talks in Beijing. Qualcomm signed a multiyear patent cross-license with Huawei spanning 5G, compute and AI. ANTA completed its €1.51bn purchase of a 29% stake in Puma, about a month ahead of schedule. Tencent is reportedly weighing up an offshore bond of up to \$5bn. Transsion launched its Hong Kong listing for up to HK\$3.36bn, and orders for Xiaomi's SkyNomad SUV were above 70,000 in their first month.

In **South Korea**, the August current account surplus widened on strong chip exports. Samsung's preliminary third-quarter operating profit jumped 782% YoY, or broadly in line with market expectations. Samsung is reportedly pricing its HBM4 at 3x HBM3E.

In **Taiwan**, September exports surged more than 60% YoY (est. +46.7%), with shipments to the US doubling. TSMC's third-quarter revenue of NT\$1.49 trillion (est. NT\$1.46 trillion) came in above the top end of guidance. GlobalFoundries signed a \$2bn five-year deal to supply US-made silicon interposers for TSMC's CoWoS¹ packaging.

In **India**, the RBI unanimously raised the repo rate 25bp to 5.50% (in line with consensus expectations), its first hike since February 2023, and signalled further tightening would be possible. The government withdrew the IGST² exemption on gold, silver and platinum imported by banks, subjecting shipments to a 3% levy. TCS reported an inline quarter, but soft deal wins kept the outlook uncertain, annualized AI revenue crossed \$3bn.

In **Mexico**, long-term corporate bond issuance reached 13 billion YTD, the highest since records began in 2004.

In **Brazil**, Flávio Bolsonaro led the first round of the presidential election with 47% vs Lula's -45.2%, making him the favorite for the 25 October runoff. The September trade surplus came in at \$7.74bn (est. \$7.40bn), though the government cut its 2026 surplus forecast to \$84.4bn from \$90bn on lower oil prices

Corporate debt

Long bond yields remained in focus as the fourth quarter began. Markets continued to digest more persistent inflation, heavy government borrowing needs and ongoing geopolitical uncertainty.

10-year US Treasury yields hit 5.36%, their highest level since 2002, but then retreated towards 5.23%. Trading on European markets was more hesitant, even if yields on the 10-year German Bund fell back below 3.5%, as traders focused on budgetary prospects and sovereign spreads.

Oil was a focal point as Brent crude traded above \$100. For bond markets, the issue is finding a balance between oil-driven inflation and its possible impact on growth.

¹ Chip-on-Wafer-on-Substrate: an advanced semiconductor packaging technology developed by TSMC.

² IGST: Integrated Goods and Services Tax.



In the European high yield segment, spreads were more volatile but generally stayed range bound. The Xover traded above 300bp while new issuance remained open for business. **Live Nation** raised \$600m with senior notes at 6.125% due 2032 and another \$730m at 7.125%, a clear sign that established issuers can still sell debt in reasonable conditions.

In the corporate hybrid segment, rising yields are automatically raising future reset levels but are also recreating interesting yields. After several deals in September, including KPN's €500m issue at 4.625%, the market was quieter over the last few days.

In subordinated financial debt, the market remained focused on movements in interest rates, sovereign spreads and the European banking sector. But current yields are still offering significant carry opportunities.

Overall, bond markets are still managing to absorb developments despite long bond yields at multi year highs and a very complicated geopolitical picture. Current yields now offer attractive carry possibilities in several fixed income segments. Over the short term, 10-year US Treasuries, oil prices and European sovereign spreads will dictate where markets go from here.



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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