Asset Management Market Flash: The US proves resilient, Europe is more mixed and volatility continues.

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- **Jensen Huang's return as head of Nvidia has led to a partial rebound in the equity markets and eased concerns surrounding AI, though it has not put an end to their volatility.**
- **Despite ongoing tensions in the Middle East and between Russia and Ukraine, the absence of any major escalation has kept oil prices below $100 a barrel.**
- **US growth is proving resilient, but accelerating inflation contrasts with a more fragile Europe, marked by a slowdown in economic activity in France.**

Jensen Huang's return as Nvidia CEO, probably due to Donald Trump's intervention, helped recoup some of the previous week's equity market sell-off. With the risk-taking CEO back in the seat, broader AI ecosystem concerns abated but volatility and the bearish trend on markets persisted.

Although Middle East hostilities continued, the fact that there was no major escalation kept oil prices below $100. The US exchanged fire with Iran and its Houthi allies: US defence sites and refineries on the Island of Qeshm were hit. In the ongoing Ukraine war, attacks hit a Russian cargo ship and vessels not only in the Baltic Sea but also off the Libyan coast.

In the US, strong growth was confirmed by the Conference Board's confidence reading which jumped to 103.3 in October, up from 91.7. And third-quarter GDP rose by an annualised 4.3% vs. 3.5% in the previous quarter. PCE inflation also rose by an annualised 3.8% in November, up from 3.7% in September and underlying inflation saw an even bigger move from 3.1% to 3.3%. The Fed's Beige Book showed companies were seeing wage and cost pressure but the ability to pass these on remained limited for the time being.

European data were more mixed. Inflation rose to 4% in October with underlying inflation up 2.6%. Wage increases were up 2.6%. INSEE's business climate index fell from 92 in October to 90 in November. Composite PMIs stabilised at 51.7 in November when analysts were going for 52. But the data masked a sharp divergence between Germany which rose to 55 and France which sank to 46.2 (both for industry and services), a drop which was due to soft domestic demand. And yet the OAT-Bund spread was underpinned by the possible introduction of a golden budget rule, a move supported by both the National Rally and Emmanuel Macron.
The appointment of Spain's Pablo Hernandez de Cos as new ECB chair favours continuity rather than change as he is seen as a moderate.

Inflation worries rose but were kept in check by new US tariffs under section 301 of the 1974 Trade Act. They were expected and respect current trade agreements, i.e. 15% for the EU and 17% for India. Only China will see an extra 20% in tariffs for a total of 40% with threats for more to come ahead of talks scheduled for January.

We remain upbeat on equity markets and take a positive view of the long term economic benefits of AI. We have been diversifying exposure both as concerns geographical zones and sectors and also fixed income now that it has decoupled from equity markets.

European equities

Despite some hesitant trading sessions, markets rose as risk appetite resurfaced. Renewed confidence in the artificial intelligence theme sent tech and industrials higher but then fresh uncertainty surrounding semiconductors and US tariffs levelled at Europe put the brakes on the movement midweek. The ECB's latest monetary policy committee minutes confirmed that a December rate hike was almost certain. High energy prices and low gas inventories ahead of the winter season continued to drive inflationary fears even if next year's trajectory is still uncertain. Spain's Pablo Hernández de Cos was officially appointed to replace Christine Lagarde as ECB chair. The European long term budget summit and this Sunday's parliamentary elections in Spain served as a reminder that the political situation continued to preoccupy investors.

In a busy week for company news, **Sanofi** acquired **Insmed** in a deal that will complement its immunology and rare disease portfolio with an access to respiratory treatments. **Novartis** said its cardiovascular drug had had positive results. In aerospace and defence, **Thales** began exclusive talks to acquire laser specialist Lumibird, a deal that would give the group access to critical sovereign laser technologies. **Dassault Aviation** made more gains on the prospect of a significant Rafale aircraft order from India. In industrials, **ABB** is to buy Germany's **Ziehl-Abegg**. **Vinci** became the majority shareholder in the concession running the South Europe Atlantic high-speed train line. **UniCredit** obtained the final authorisation to take control of **Commerzbank**. **LVMH**'s control structure was simplified by confirmation that **Christian Dior** and **Agache** were to merge. **Rémy Cointreau** soared after strong half-yearly figures and a presentation of its medium-term ambitions. The autos sector was one of the best performers this week after upbeat new registrations in Europe and renewed investor interest in cyclicals. **Volkswagen**, **BMW**, **Stellantis** and **Renault** all made gains. In tech, **SAP** is reportedly mulling another large-scale restructuring plan to redirect resources towards artificial intelligence. **ASML** advanced after Holland's government said it would oppose US efforts to reinforce limits on the group's exports to China.

US equities

In a mixed week on Wall Street, the S&P 500 edged 0.1% higher, the Nasdaq Composite gained 1.8% and the Russell 2000 ended the period 1.9% better. WTI rose 1.5% to $84 after a Houthi attack on a Saudi refinery. Tensions were exacerbated by Iran claiming it had attacked ships in the Strait of Hormuz.
Tech gained 2.5 % while the semiconductor SOX index jumped 6.8%. **Nvidia** plunged 14% on news of a SEC investigation and a parliamentary probe into chip exports but then rocketed 32% after Jensen Huang was reinstated as CEO. **Dell** (-6%) had a good quarter in AI. Adjusted EPS beat consensus expectations by 43%, the group registered $60bn in new AI server orders and also raised annual guidance. **Hewlett Packard Enterprise** (-10.3%) also had a good quarter but the stock plunged on the expected drop in its Cloud and AI division's operating margin from 18.4% to around 14% due to the increasing contribution of less profitable servers.

Consolidation in the cybersecurity space continued: **CrowdStrike** (-14%) is to pay $44bn for **Zscaler** (+12%), a 34% premium. The stock's fall was due to worries over dilution for CrowdStrike.

Healthcare gained 3.5% as investors rotated into defensives. **UnitedHealth** (+4.8%) brushed off a new proposal from CMS, the federal agency managing Medicare, which would tighten rating criteria for Medicare Advantage contracts.

Consumer discretionary slipped 0.3% despite upbeat results. Sales at **Abercrombie & Fitch** (+28.6%) rose 11%, or close to double what analysts were expecting. EPS at **Dick's Sporting Goods** (+16.5%) came in 37% above consensus thanks to its gross margin and a recovery at **Foot Locker**. **Best Buy** (+3.3%) saw sales rise 6.1% when they were only expected to increase by 2.4%. This was the biggest rise on a same store base since 2021, but management sounded a cautious note for the Christmas season.

Emerging markets

The MSCI EM was up 1.61% in USD as of Thursday. Brazil, Taiwan and India gained 9.18%, 8.75% and 0.24%. Korea, Mexico and China were down by 4.15%, 1.01% and 0.84%, respectively.

In **China**, industrial profits grew 20.1% YoY in October. The US announced a 20% tariff on Chinese goods on Wednesday, in line with the trade-truce ceiling, as part of an overcapacity package targeting 14 economies. Elsewhere, Beijing extended its pause on rare earth export curbs to the US in a bid to stabilise increasing tensions between the countries. The US also closed a loophole that let Chinese firms remotely tap Nvidia chips housed abroad. Xiaomi's third-quarter revenue and adjusted net income beat subdued estimates, with smartphone revenue flat against an expected 6% decline on premiumisation. Bilibili's results were in line with expectations, with AI investment committed to be disciplined.

In **South Korea**, the BoK hiked by 25bp with a tightening bias to 3.25% in line with expectations. Authorities announced market-stabilisation measures amid increased AI volatility. Exports over the first 20 days of November rose 95.2% YoY (working-day adjusted) from +65.9% in the same period of October, after annual exports topped $1T for the first time. Hyundai and Kia's combined European sales fell 1.7% YoY in October amid Chinese competition.

In **Taiwan**, third-quarter GDP rose 14.39% YoY, or in line with estimates. Export orders jumped 78.3% YoY in October, or ahead of estimates of 64.6%. After the worst weekly slump since 1991, the FSC barred short selling below the previous close this week, and the NT$500B National Financial Stabilisation Fund bought shares. Google reportedly cut its shipment target for the Broadcom-designed TPU 8i by 20%.

In **India**, core industrial output rose 10.9% YoY vs. 8.2% in the previous month. The government announced $1.2bn of production-linked incentives for heavy construction equipment through FY34 to reduce reliance on Chinese imports. Siemens Energy India's fourth-quarter revenue rose 30% YoY and net income 81%, or ahead of estimates with new orders up 92% and the backlog up 26%. Mizuho completed its acquisition of KKR's controlling stake in Avendus for $510m.

In **Mexico**, final third-quarter GDP rose 3.3% YoY (preliminary 3.2%; second quarter 2.2%), the fastest since 2023 on strong exports as US trade talks continued. Retail sales for September rose 2.2% YoY, or below expectations of 3.4%

In **Brazil**, mid-November IPCA-15 rose 0.22% MoM (est. +0.36%; mid-Oct +0.32%), or below all estimates Lula named Bradesco chairman Trabuco as finance minister from 2027, a market-friendly pick. Brazil was also included in Wednesday's US tariff package, and the US proposed a separate 10% tariff on finished aircraft from Brazil, a blow to Embraer

Corporate debt

In a shortened week for the US Thanksgiving holiday, credit markets stabilised as equity markets calmed down.
The EUR HY HEC5 index fell 0.23% over the week as spreads widened. The Xover was unchanged at 307 but had widened in the previous week to 323. There were no new high-yield issues.

The ENSU index outperformed by returning 0.12%. It was a quiet week for investment grade new issuance in the US. In Europe, there were a few deals from major banks like **Crédit Agricole**, **DNB Bank** and **Banca Monte dei Paschi di Siena** but no AT1 issues. The euro hedged CoCo index shed 0.15% over the week. The subordinated financial debt market managed to show some resilience considering recent volatility.

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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