Asset Management Market Flash: Christopher Waller provides Kevin Warsh with a way out, giving markets a fresh opportunity

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- **Kevin Warsh's hawkish stance in the face of persistent inflation and US economic resilience led to a rise in interest rates, weighing on risky assets.**
- **In the eurozone, August inflation rose to 3.3% as expected, largely due to energy prices, while the Chinese economy continues to suffer from sluggish domestic demand.**
- **In Japan, economic indicators are surprising on the upside and comments from the Bank of Japan remain restrictive, paving the way for a likely rate hike in September.**

Back from the summer break, markets had to digest Kevin Warsh's intervention at Jackson Hole on the previous Friday and fresh US strikes on Iran. The Fed chair delivered a much more hawkish speech than expected. He said inflation was too high, had been so for too long and was now tending to spread. He also considered that the full employment target had been reached. He gave no detail on future monetary policy trends but investors reacted by raising hike probabilities to 70% in September. On Monday, bond yields rose because of his tone but higher oil prices, following renewed tension in the Middle East, also played a part. As a result, risk assets fell at the beginning of the week.

With Kevin Warsh leading the Fed, economic data have become ever more crucial. This week, final manufacturing ISM, composite PMI and services and Services ISM all showed that the US economy was proving resilient. Tensions were also apparent in the price indices.

In the eurozone, August inflation rose to 3.3% as expected, largely due to energy prices. Core inflation, however, edged lower from 2.5% to 2.4% when 2.5% was expected. There are still fears of knock-on inflation from accelerating oil and gas prices and investors have completely discounted a rate hike when the ECB meets next week.

In China, PMI came in under 50 -so in economic contraction territory- for the second month. Non-manufacturing PMI also missed expectations, a token of soft domestic demand. RatingDog's PMI were better but they also show exports, especially tech, shoring up the economy while domestic demand struggles.

Japan's economic data were better with both retail sales and industrial production surprising on the upside in July. The upward trend in consumer confidence was confirmed by August's figure. Comments from the Bank of Japan remain restrictive and markets see a rate hike coming this month. The yen gained more than 2% against the dollar following comments from finance ministers at the G20 summit and increased pressure from Scott Bessent.

We took advantage of the equity market correction - due to rising rates and fresh Middle East tension- to remove the eurozone equity hedges we took out in August. We continue to think the Fed will not raise rates in September so interest rates could ease, lightening pressure on equities. Our view was bolstered by Fed governor Christopher Waller arguing for the Fed to be patient before turning more restrictive. This also means that we are still slightly positive on duration.

European equities

Trading turned even more cautious this week as the US-Iran conflict looked like getting bogged down, risking more disruption to energy flows. Inflationary fears were rekindled after persistent tension in the Strait of Hormuz sent Brent crude up to $96 and TTF gas above €70 MWh. As a result, government bond yields remained under pressure.

In company news, several strategic and operational developments were announced. **Saint-Gobain** reinforced its Latin American exposure by buying QSI Productos. The acquisition will boost the French group's exposure to infrastructure and construction chemicals. **Nestlé** continued to refocus on its most strategic activities by divesting its mainstream vitamins, minerals and supplements business. Elliott Investment bought a stake in **Deutsche Telekom**. **Alstom** secured a large contract for around €3bn in Canada. **Novartis** provided confirmation that its multiple sclerosis treatment was efficient and, more importantly, that it had a favourable safety profile. **Soitec** ramped up its sales guidance thanks to accelerating demand for Photonics-SOI, improved short-term customer visibility and the group's ability to adjust production to meet demand.

US equities

Wall Street had a mixed week. The S&P 500 gained 0.5% and the Nasdaq 100 0.2% while the Russell 2000 edged 0.1% lower.

Tech gained 0.9% while the semiconductor SOX index shed 1%. Earnings reports nevertheless continued to showcase strong demand in the AI space. **Dell** (+7.9%) delivered robust figures and raised guidance to reflect strong demand for AI infrastructure. **Broadcom** (-3.2%) also had a solid quarter and reinforced its AI outlook but its sales guidance for this quarter was slightly lower than the market expected. Guidance from **Palo Alto Networks** was better than expected but the stock tumbled 11.6% as investors focused on the trajectory for margin and recurrent revenue growth.

Healthcare gained 1.2%, led by strong results at **Medtronic** (+2.1%). EPS and sales both beat and management raised like-for-like growth guidance for the full year.

Energy (+3.3%) led gains thanks to oil rising. **ExxonMobil** jumped 4.8% and **Chevron** 4.9%.
Consumer discretionary slipped 0.9%, hit by **Amazon** (−4.3%) and **Home Depot** (−3.5%). The fall reflects worries over the slowing labour market, persistently high interest rates and the potential impact of more expensive energy.

Emerging markets

MSCI EM retreated 1.07% in USD terms as of Thursday. Brazil stood out, rallying 7.72% on rising hopes for a more market-friendly election outcome, while Mexico gained 0.45%. Asia underperformed, with China down 2.14%, Korea -1.29% and Taiwan -1.25%. India was broadly flat despite higher oil prices.

In **China**, on policy, the government ended a long-standing individual income tax exemption on certain dividend payments linked to foreign-invested companies, as part of broader tax reforms. MOHURD also introduced measures to regulate home sales, encouraging new projects to be sold upon completion and extending the maximum mortgage tenor from 30 to 40 years. On the corporate side, **Meituan** delivered encouraging 2Q26 results, with improving profitability and cash flow. **Huawei**, **Xiaomi** and **Honor** raised smartphone prices by up to $150 across several models. **ByteDance** secured a $30bn loan as it accelerates AI investment, while its new-generation **Doubao** phone reportedly uses **CXMT** mass produced memory chips. **Xiaomi** also confirmed plans to launch EV sales in Europe in 2027.

In **Taiwan**, **TSMC** is reportedly considering another 5–10% price increase for its advanced N2, N3 and N5 processes in early 2027. **Nvidia** announced a $3.5bn investment in **MediaTek** through convertible bonds, deepening their collaboration and marking Nvidia's largest direct investment outside the US.

In **Korea**, August exports rose 68.7% YoY, ahead of the 63.0% expected, while imports increased 22.5% versus 25.0% expected. The government proposed a record $597bn national budget for 2027, with AI investment identified as a key priority. **Samsung Elec** and **SK Hynix** bought back shares exceeding W15tr over recent 10 trading days amid escalating macroeconomic headwinds.

In **India**, April–June GDP grew 7.8% YoY, ahead of the 7.3% consensus, with broad-based strength across fixed investment, private consumption and net exports. The upside surprise reinforced expectations for a potential rate hike later this year. India also attracted a record $127bn through its FCNR(B) special deposit programme, bringing total capital raised through related measures to $136bn.

In **Brazil**, 2Q26 real GDP grew 1.98% YoY, slightly ahead of the 1.9% expected. Election optimism continued to build as a new poll showed Lula's lead over the more market-friendly Bolsonaro narrowing. The Lula administration also unveiled its 2027 budget proposal, targeting a primary surplus of 0.5% of GDP. Meanwhile, Congress approved a critical minerals bill giving the government greater oversight of mining transactions.

In **Mexico**, Economy Minister Marcelo Ebrard travelled to the US seeking an agreement on automotive and steel tariffs.

Corporate debt

Risk aversion rose this week, chiefly because of Kevin Warsh's hawkish address at Jackson Hole. Middle Eastern tensions also weighed on sentiment and oil and gold stocks rose.

Yields on Germany's 10-year Bund gained 9bp over the week, matching the rise in US 10-year Treasury yields. The Xover was unchanged over the period while the high yield index fell 0.32% and investment grade finished 0.48% lower.

The new issues market opened for business as of September 1st as traders returned from holidays. **Nexans** (BB+/S&P) raised €500m at 4.25% due September 2031; **Boels Topholding BV**, Europe's second largest equipment rental company, raised €400 due September 2032 with a call option after 2 years; **New Immo** (Auchan group) raised €500m at 5.875% due September 2032. The bond was issued at 99.385%, taking the yield to 6%.

On a busy corporate hybrids market, **KPN** raised €500m at 4.75% and **Deutsche Boerse**, in its first hybrid deal since February 2022, raised €600m at 4.20%.

Subordinated financial debt remained active despite a more difficult environment, especially in France. **Commerzbank** raised €750m at 6.25% with an AT1. The order book totalled more than €3bn. **Monte dei Paschi di Siena** raised €500m with a green T2 and **Ethniki Hellenic General Insurance** sold T2 and RT1 debt. In Switzerland, **UBS** could cover up to 50% of its new capital requirements with AT1 issuance so it could turn more to this segment in the future.

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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