



Market Flash: Mild euphoria

22nd May 2026

- **In the absence of decisive diplomatic progress, markets are swinging between worry and renewed optimism. The high volatility in interest rates reflects uncertainty over the trajectory of prices and central bank policy.**
- **Despite contracting PMI, the prospect of less aggressive tightening by the ECB is supporting European equities, with defensive stocks, utilities, telecoms and IT outperforming.**
- **Activity in the US remains solid, driven by the manufacturing sector. However, several sectors (industry, energy, consumer goods) are underperforming and the technology sector has seen profit-taking.**

In the absence of decisive diplomatic progress, financial markets continued to swing between worry and renewed optimism. At one stage, Brent crude briefly flirted with \$112, interest rates rose on persistent inflation concerns and equity markets retreated but the trend reversed on fresh hopes that Washington and Tehran would reach an agreement. However the hopes were rapidly dashed when Iranian officials refused to allow the country's uranium to be moved abroad.

At the same time, energy prices eased thanks to a few developments: two Chinese tankers carrying 4 million barrels of oil reportedly passed through the Strait of Hormuz and South Korea said one of its ships had gone through with 2 million barrels thanks to a green light from the authorities. This was important for Europe which is heavily dependent on oil imports.

Nevertheless, inflation worries persisted. Even if the Fed thinks its monetary policy is appropriate overall, several members said they would vote for a more restrictive position if the situation required it. Investor concerns over where inflation is heading led to strong interest rate volatility. Yields on 10-year US Treasuries traded between 4.55% and 4.68%. The equivalent German Bund moved between 3.05% and 3.20%. Japanese government bond yields trended higher as wage pressures fuelled inflation and growth proved resilient (first-quarter GDP rose 0.5% MoM, or higher than the 0.3% expected and up from 0.2% in the last quarter of 2025). For the Bank of Japan, a solid economy and persistent inflation should translate into fresh rate hikes in June.

In the UK, the number of people employed fell by 100,000 in April. Inflation also fell back so expectations of more rate hikes from the Bank of England abated.

In the eurozone, the slowdown in activity along with a gradual normalisation in price pressures reinforced the idea that the ECB might not have to be as aggressive in tightening as was feared only very recently. Europe is struggling with structural headwinds - high energy prices, equity indices with low tech weightings and loss of competitiveness with China - so the likelihood of fewer rate hikes is a significant support factor for equity valuations.

Most major equity indices were stable over the week, but Europe actually trended higher. This was due to a 7.5% rise in defence plays as well as gains in utilities, telecoms and IT. This is all the more remarkable as it jars with business surveys. The eurozone's composite PMI came in at a two-and-a-half year low of 47.7, sharply lower than the 48.8 expected and April's 48.8. A fragile economy could lead markets to factor in less tightening than expected from the ECB.



At the same time, several Europe-specific factors are starting to favour the asset class over the medium term. There is a feeling that Russia's offensive in Ukraine is losing steam while domestic pressures on Moscow are increasing so risk sentiment in Europe could improve marginally. And each indication of detente around the Strait of Hormuz reduces energy prices. Europe's first-quarter earnings season was rather solid. Around 60% of Europe's companies beat EPS expectations even if the figures are less impressive than those on tech-rich Wall Street.

PMIs in the US continued to point to a robust economy: composite PMI at 51.7 vs. 51.8 expected and 51.7 in April. Once again, manufacturing was the driver (55.3 vs. 54.5 in April) mainly due to inventory rebuilding to ward off supply chain risks. As for returns, sectors like industry, energy and consumption fell and the tech sector saw profit taking despite **Nvidia** beating expectations and announcing an \$80bn share buyback programme.

We are still upbeat on the medium term outlook for equities. We have continued to add to shorter-term tactical hedges faced with the current mild euphoria on markets. After all, there are still no tangible signs of an imminent end to geopolitical conflicts. We remain upbeat on US equities because macro data are still robust and we also like emerging country markets as they are benefiting from momentum in the energy and AI sectors. As for European equities, fundamentals have been less favourable but they should gain from an end to the conflict.

We continue to favour government bond and credit markets while remaining vigilant over inflation risks and short term volatility induced by data flows and geopolitical developments.

European equities

The week saw more earnings reports but most of the results season is over. Markets remained focused on Middle East tensions and their inflationary consequences as well as central banks. Meanwhile, the AI and data centre theme continued to enjoy strong momentum.

Elsewhere, company results were again mixed depending on sectors. In consumer goods, **Asmodee's** figures swept past expectations thanks to strong sales of collectible cards and board games, while **Elior Group's** EBITA fell short and management revised guidance lower due to delays in contract rollouts and higher inflation. **Ryanair** reported a miss amid pressure on prices and reduced visibility. **easyJet** sounded a cautious note due to higher fuel costs. In luxury goods, **Richemont's** solid full-year figures were underpinned by Asia returning to double-digit growth and strong jewellery sales even if margins remained under pressure due to the gold price and currency effects. **Puig** lost ground after Estée Lauder walked away from merger talks. In industry/technology, **NIBE** had a mixed quarter. The heat pump division performed well in Europe but residential heating solutions continued soft due to US tariffs. **ASML** unveiled a strategic partnership with Tata to set up India's first semiconductor fabrication plant, a move that will take the company's role in the ecosystem beyond simply supplying equipment. M&A continued apace in Europe. **Legrand** acquired Malaysia's SRS Power Engineering, the group's fifth data centre purchase this year. **Publicis** continued to expand in data and AI by buying LiveRamp. In the US, **Magnum Ice Cream Company** is reportedly being eyed by several private equity funds.

US equities

Volatile growth and AI stocks left the S&P 500 only 0.5% better while the Nasdaq edged 0.26% higher. The Russell 200 jumped 1.8% on a rebound in cyclical small caps and heavily shorted stocks.

AI remained centre stage but major winners consolidated. In an example of market selectivity, **Analog Devices** also fell despite an upbeat message on AI infrastructure. In contrast, **IBM** soared on CHIPS Act



funding for a quantum chip foundry. Some software plays like **Intuit** stayed under pressure. The stock fell in spite of announcing a results beat and a significant lay-off plan. Ahead of a tech IPO flow, the market was particularly attentive to the **SpaceX** dossier. Its IPO file has \$18.7bn in revenue for this year and a net loss of \$4.9bn which suggests strong growth potential but with a high risk profile.

Dispersion remained strong in sector returns. Real Estate (+2.94%) led gains as long rates eased. Residential and multifamily property companies benefited from 10-year Treasury yields falling back and better-than-expected property indicators. Utilities (+2.49%) also outperformed thanks to visibility on regulated revenue and structural AI/data centre demand for electricity. **NextEra Energy** paid around \$66.8bn for **Dominion Energy**, a good illustration of the ongoing consolidation in regulated power networks amid a strong increase in capacity requirements. Healthcare gained 2.09% as pharma stocks and some biotech companies advanced. **Eli Lilly** stood out after another batch of very positive results for its weight loss drugs while other segments benefited from clinical tests and favourable capital movements. The sector's defensive profile means it is still attractive in a context of strong nominal growth. Consumer discretionary (+1.72%) was lifted by specialty retail and brands with strong pricing power. **TJX Companies** gained after a better-than-expected quarter and raised guidance. HomeGoods enjoyed strong momentum. **Home Depot** reported upbeat figures. Margins held up better than expected despite pressure on purchasing power. Premium brands like **Ralph Lauren** and restaurant chains like **Cava Group** also performed well. Cava surprised the market with close to 10% like-for-like growth and improved guidance.

Energy (-0.81%) was hit by the oil price falling back at the end of the period as hopes rose for a cease fire and a possible return to normal in the Strait of Hormuz. Producers with high exposure to oil prices fell back as WTI retreated to \$97. Consumer staples (-0.88%) underperformed. **Walmart** fell after results that were "only" in line. Guidance was also cautious due to rising fuel costs and operating expenses. **Kroger** intensified competition (and fuelled worries over sector margins) by slashing prices to claw back market share from Walmart and Costco. Communication services (-1.19%) was the worst performing sector. Investors took profits on large platforms following a strong run up. In spite of occasional good news on companies like **Spotify**, the sector is still very sensitive to rate expectations, the advertising cycle and the ability of groups to monetise subscribers in today's more uncertain macro environment.

Emerging markets

MSCI EM was up 0.47% in USD terms as of Thursday. Korea, Mexico and Brazil were up 5.03%, 1.96% and 0.46%. China, Taiwan and India were down by 3%, 0.13% and 0.04% respectively

In **China**, April activity data disappointed: retail sales rose just +0.2% Y/Y (vs +2.0% est) and industrial output rose +4.1% (vs +6.0% est). The Xi Jinping-Donald Trump Beijing summit delivered stabilization, not breakthrough: both sides agreed to set up trade and investment coordination boards. Vladimir Putin then visited Beijing, signing a joint statement deepening strategic coordination with energy cooperation in focus. **Tencent** announced its Hunyuan AI models move to paid usage-based services. **Tencent Music** completed its Ximalaya acquisition for up to \$1.26B cash plus -175M shares. **Bilibili** posted Q1 with ad revenue of +30% Y/Y and a swing to profit, but gaming fell -12% Y/Y. NetEase delivered record-high margins though near-term game pipeline remains anemic.

In **South Korea**, May 1-20 exports jumped +64.8% Y/Y, with chip exports up +202.1% and a \$11.03B trade surplus. Consumer sentiment leapt 6.9pp to 106.1, the fastest monthly rise in nearly a year. Producer-price index growing at 6.9% in April added to the case for a BOK hike. **Samsung** labor talks broke down during the week, raising the prospect of an 18-day strike, before a government-mediated deal averted it; chip staff are set to receive average bonuses of ~509M won.



In **Taiwan**, April export orders surged +48.1% Y/Y to \$87.5B (est. +45.0%) – the second-highest monthly total on record, with US orders +62.6%. President Lai proposed a NT\$100B industrial-upgrade fund and the Cabinet approved an initial NT\$8.8B (\$280M) defense budget. **AMD** pledged more than \$10B across Taiwan’s chip ecosystem, with its 6th-gen EPYC “Venice” CPU the first HPC product to ramp on **TSMC**’s 2nm process.

In **India**, Wholesale Prices jumped to a 42-month high of 8.30% on a 24.7% surge in fuel and power prices. PM Modi directed ministers to explore alternatives like biogas amid the Hormuz blockade. Modi’s BJP swept state elections (including a historic West Bengal win) and doubled gold and silver import taxes to defend the rupee.

In **Mexico**, EU signed the Modernized Global Agreement and interim Trade Agreement to diversify trade and reduce supply-chain risk. **GM** pressed ahead with a \$1B 2026-27 investment targeting 80,000 vehicles/yr by 2030 despite the 15% US export tariff.

In **Brazil**, President Lula signed two decrees expanding Big Tech obligations on criminal content. **XP** announced first quarter results below expectations and a new CFO

Argentina’s economy rebounded in March, with activity up 3.5% from February and 5.5% year-on-year. Growth was led by agriculture, followed by manufacturing and mining, with 14 of 15 sectors expanding. Economy Minister Luis Caputo said growth should accelerate in May and June.

Corporate debt

Interest rate volatility dominated trading with investors reacting to good or bad news on the chances of a peace agreement between the US and Iran. Yields on the 10-year German Bund moved between 3.20% and 3.06%. Sentiment remained upbeat on credit markets. The Xover hardly budged, tightening by only 2bp to 279bp as of Thursday’s close. With government bond yields easing, European IG outperformed on credit markets, returning 0.24% over the week. High yield edged 0.05% lower. CoCos slipped 0.01% while Hybrid corporates gained 0.02%.

On a very busy new issues market, investment grade beat issue expectations by raising €35bn across 51 tranches. New deals were still easily taken up but bids started to fall and issue premiums increase slightly.

In high yield, Austria’s **Ams OSRAM** (semiconductors and lighting systems) raised €11bn at 7.25% due 2032. Spain’s **Molins** (cement) raised €500m at 5.5% due 2033 with the proceeds earmarked for acquisitions.

In subordinated financials, **BNP Cardif** raised €2.25bn in 2 Tier 2 tranches at 4.875% and 4.414%. **BPER Banca** raised €500m with an AT1 at 6.2%.



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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