



# Asset Management Market Flash: Prosperity is genuine, but balances need to be established

16 October 2026

- **US inflation is accelerating due to rising energy prices, whilst indicators of economic activity and confidence point to a gradual slowdown.**
- **Geopolitical tensions and uncertainties over energy supplies are keeping price pressures high, both in the US and in China.**
- **We remain positive on duration, favouring short and intermediate maturities, and have increased our exposure to equities.**

The keynote event this week was the first impact of the energy price rebound on US inflation. Total CPI rose from 3.4% in August to 3.7% due to a 9.1% increase in petrol prices. More importantly, underlying inflation rose from 2.4% to 2.6%. Producer price inflation rose to 6.3% from 5.4% in August, the fastest rise in more than 4 years. Inflation pressure ahead of what looks like being difficult midterms for the Republican party led Donald Trump to announce an agreement with Moscow to buy diesel fuel despite sanctions and an energy ceasefire between Russia and Ukraine. His decision was meant to reduce pressure on energy prices but the market reaction was muted due to a lack of enthusiasm in the US, including among some Republican senators. In addition, neither Moscow nor Kiev confirmed the agreement. Kiev said its energy infrastructure had been targeted by Russia and that it would therefore continue to attack Russian installations. The Middle East conflict continued with an escalation between Saudi Arabia and Houthi rebels.

Elsewhere, the Fed's Beige Book emphasised rising costs and the risk for growth momentum in the US. This was reflected in retail sales which rose 0.8% vs. 1.3% in August. The Michigan consumer confidence survey also fell from 48.1 to 46.3 although data on the outlook and inflation expectations were in line with expectations.

In China, rising prices fed into production prices which rose from 3.8% in August to 5%. Exports rose 36.3% over a year, after a 25% rise in August but consumer price rises were limited to 0.9%. China also signed an agreement with the EU to limit hybrid car exports to Europe.

EU countries began tough talks on reducing the union's budget by 8% and deciding on how it would be allocated. In the UK, Andrew Bailey, the Bank of England's governor, said that GDP had decelerated by 0.1% so there was no knock-on inflation. He claimed that the current inflation shock was unlike previous episodes and so did not warrant a rate hike for the moment.

With markets expecting significant rate hikes, we remain upbeat on duration with a focus on short and intermediate maturities. We have reinforced equity exposure following market declines as we expect the upcoming earnings season to show how well companies are doing.



## European equities

In a show of resilience, Europe's leading indices ended the period higher even though oil prices and interest rates stayed elevated. Fresh Middle East tensions kept oil prices high, maintaining pressure on Europe, which depends on energy imports, and fuelling worries over inflation. US inflation came in higher than expected and initially sent bond yields higher before wariness over AI plays triggered a European bond rally and helped yields ease at the end of the week. AI doubts weighed on Europe's semiconductor and electrical equipment plays but Europe is less exposed to tech and so held up better than Wall Street. Investors bought into defensives like healthcare, food and luxury. In France, the draft budget went before parliament and the closely-watched debates kept French spreads with Germany wide.

In company news, quarterly earnings confirmed that demand for data centres remained strong. **ASML's** figures beat expectations and the group raised its annual targets, adding that its production capacity would not meet demand in coming years. **VAT Group's** new orders hit record highs. **Schneider Electric** swept past expectations and once again raised its targets. However, this good news failed to stop declines in semiconductor stocks like **STMicroelectronics, ASM International and Soitec** and companies like **Legrand, ABB and Nokia** in electrical and network equipment. **Publicis** bucked the trend: growth exceeded expectations due to the group's AI solutions and new contracts so management was able to confirm its objectives. In energy and industry, **Vallourec** won a contract from **TotalEnergies** to equip a gas field in Azerbaijan and **Exail Technologies** reiterated its objectives after seeing strong growth. After an increase in capital, **Eramet** will have the French state as its biggest shareholder. Elsewhere, **LVMH's** figures saw only modest growth as fashion and leather good sales fell in China but **Hermès, L'Oréal and Danone** gained on the renewed appeal of defensive stocks. Analysts turned more cautious on **EssilorLuxottica**. **Pernod Ricard** reaffirmed its targets and said there were incipient signs of a recovery in China. The European Commission completed its investigation of **Sanofi** and decided against sanctions over the group's marketing of its flu vaccines in return for commitments from management.

## US equities

Due to higher-than-expected inflation and a tech stock sell-off, the **S&P 500** lost 0.9%, the **Nasdaq 100** 3.1% and the **Russell 2000** 1.4%. Concerns over another Fed hike resurfaced after consumer prices rose 3.7% over a year, or more than the 3.6% rise expected. **WTI** jumped 6.7% to \$98 on a sharp drop in US inventories and attacks on shipping in the Strait of Hormuz.

The **tech sector** tumbled 3.9%. The **SOX** semiconductor index plunged 7.9% as investors fretted over AI funding efforts. AI infrastructure plays which are interest-rate sensitive lost the most ground, notably neocloud stocks like **Coreweave** and **Nebius**. **TSMC** (-1.8%) reported a record result of NT\$ 763bn or 2% better than consensus estimates. **Dell** cratered 19.2% after Barclays downgraded the stock to equal weight, citing worries over slowing growth in AI infrastructure ahead of an expected normalisation in memory chip prices. At an investor conference, **Anthropic** reported a close to 50% increase in sales to \$17bn but this marked a sharply slower growth rate.

It was a busy week for M&A in software. A consortium led by **GTCR** and **Elliott** acquired **CCC Intelligent Solutions** in a deal which valued the company at around \$6.1bn. In cybersecurity, **Varonis** is to be acquired by **Proofpoint** for around \$6.3bn.

**Healthcare** (+3.7%) outperformed as investors rotated into defensives with **UnitedHealth** up 7.2% and **Eli Lilly** 6.1% better. **Johnson & Johnson** was down around 3.1% even though EPS of \$2.6 was 4% above consensus and management revised annual guidance higher. The stock was hit by weakness in its



MedTech division where sales (\$8.6bn) missed expectations, mainly because of cardiovascular and surgery product weakness.

**Financials** ended 0.9% higher. **JPMorgan** reported EPS of \$5.75, or lower than the \$5.92 expected mainly because of losses on securities and lower trading revenues. On the other hand, **Goldman Sachs** crushed EPS expectations (\$17.1 vs. \$12.76) thanks to equity trading. **Bank of America** disappointed investors with revenues of \$31.1bn vs. \$30.6bn expected. The bank was also hit by a \$1.2bn fine after an investigation into money laundering practices.

## Emerging markets

The MSCI EM was down 5.91% in USD as of Thursday. India and Mexico were up 3.95% and 2.24% and Korea, Taiwan, Brazil and China shed 18.38%, 6.58%, 3.41% and 2.00%, respectively.

In **China**, September exports surged 36.3% YoY (est. +25.7%) and imports rose 31.0% (est. +25.0%), with shipments to the US up 39.6%. PPI rose 5.0% YoY, the fastest since 2022, on oil above \$100, while CPI rose just 0.9% (prior +0.8%). The EU plans to cap Chinese hybrid imports at 350,000 units a year and is seeking new powers to block Chinese imports, while Beijing will cut the NEV export VAT rebate to 9% from 13% from April 2027. CXMT claimed an unverified breakthrough in 4F<sup>2</sup> DRAM. September NEV sales fell 16.7% YoY per the PCA.

In **South Korea**, exports for the first 10 days of October jumped 102% YoY, while imports were up 65.5%. The export price index was up 40.9% YoY with the import price index up 17.6%. Hyundai Motor Group announced it would be investing \$15.5bn in India up to 2032.

In **Taiwan**, TSMC's third-quarter net income rose 68.7% YoY, or ahead of estimates, and fourth-quarter revenue guidance also beat estimates, although a margin of 66.4% came in a touch below the 66.5% estimate. The government plans to make unauthorised exports of AI servers and advanced chips to China a criminal offence.

In **Indonesia**, MSCI announced a consultation on a proposal to reclassify/downgrade Indonesia from EM to Standalone Market status due to insufficient market accessibility, size or liquidity.

In **India**, September CPI rose to 5.54% YoY from 4.83%, a two-year high near the top of the RBI's 2–6% band, and the trade deficit widened to \$30.21bn from \$26.9bn on festive and oil imports. The RBI introduced strong rupee-support measures, including a special dollar window for state oil companies and a reserve requirement on some FX derivatives but the 10-year yield continued to inch up toward 7.5%, its highest level since March 2023. HCL Tech beat with net profits up 21% YoY and record deal wins of \$3.26bn. DMart reported a weak quarter after its EBITDA margin slipped to 7.1% from 7.3%.

In **Mexico**, industrial production rose 3.5% YoY, or ahead of the 2.7% expected. Progress toward a US deal cutting tariffs on steel, aluminum and autos stalled after objections from Commerce Secretary Lutnick.

In **Brazil**, The Senate voted to end the six-days-on "6x1" work schedule without pay cuts, as part of Lula's pre-runoff campaign. The runoff tightened: Datafolha showed Flávio Bolsonaro at 51% of valid votes vs. Lula's 49%, within the margin of error and down from a 4-point lead.

In **Peru**, Bonaventura reported a production forecast, with shipments better than expected, but reduced 2026 guidance for gold and silver production by 5%.



## Corporate debt

The week was dominated by risk-off sentiment due to three factors: (i) a rotation out of AI and semiconductor stocks after **Anthropic's** figures reflected a slowdown in growth, (ii) inflationary worries after US CPI came in higher than expected and (iii) Middle East escalation and fresh attacks on energy infrastructure in Russia and Ukraine in spite of Donald Trump's intervention.

Brent crude traded in a range of \$103-106. IMF and World bank summits in Bangkok highlighted budgetary risk in Europe, and notably France and the UK.

Decompression on credit markets continued with risk premiums on Euro IG widening by 10bp to 94bp and by 54bp to 347bp on Euro HY. In spite of higher-than-expected US inflation, government bond yields fell as investors sought a safe haven. Yields on 10-year US Treasuries fell 18bp to 5.1% and by 7bp on the equivalent German Bund

Returns this week were mixed: +0.42% for Euro IG, +0.49% for euro hybrid debt, +0.28% for euro CoCos and -0.29% for euro HY.

Risk aversion weighed on new issuance in Europe. Deals raised €24bn or much less than the €30-34bn expected. Of note in euro HY was Paprec, a BB-rated French recycling company, which raised €525m at 6% due 2031. And Italy's **Banco BPM** (BB-) raised €400m with an AT1 perpetual bond NC6 at 6.75%.



## **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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