



EDMOND DE ROTHSCHILD ASSET MANAGEMENT

MARKET FLASH: RISK ASSETS RISE ON US RATE CUT EXPECTATIONS

- Disappointing job creations in the US convinced markets that the Fed had to revive the rate-cutting cycle.
- The ECB, meanwhile, left its rates unchanged. The bank thinks risks to economic growth are now more finely balanced and is more confident on the eurozone's economic outlook.
- Markets generally shrugged off a number of political and geopolitical tensions.

Disappointing job creations in the US convinced markets that the Fed had to revive the rate-cutting cycle. Risk assets rose, especially as the data showed that job creations between April 2024 and March 2025 had been revised down by a massive 911.000. Analysts had been expecting a drop of 682.000, but nothing like this. This means the US is creating 70.000 jobs a month rather than 146.000. In addition, weekly jobless claims were higher than expected, hitting levels not seen since 2017, although it appears the main reason was a rise in fraudulent claims in Texas. And producer prices fell 0.1% in August, or more than expected, as services dragged the figures down. Inflation nevertheless rose by an annualised 2.9% in August, up from 2.7% in July, but the figures were expected so markets were reassured. Expectations of a resumption in the rate-cutting cycle combined with a US economy that is slowing but still holding up helped risk assets gain ground. So next week's Fed meeting is highly anticipated.

The ECB, meanwhile, left its rates unchanged. The bank thinks risks to economic growth are now more finely balanced and is more confident on the eurozone's economic outlook. Its views on inflation were only slightly changed and chair Christine Lagarde reaffirmed her opinion that current monetary policy was in the right place. Investors now see little chance of significant ECB rate cuts in the future.

Markets generally shrugged off a number of political and geopolitical tensions. In France, the Bayrou government fell on Monday and Emmanuel Macron appointed a close ally Sébastien Lecornu to replace him. In Japan, PM Shigeru Ishiba resigned over the weekend and his LDP party will hold elections to find his successor. Japanese equities rose on the news in expectation of increased budget spending. Elsewhere, Israel bombed a building in Doha (Qatar) in a targeted attack on Hamas leaders. Russia hit government buildings in Kiev and Russian drones were shot down in Poland's airspace. These events meant that the OPEC+ decision to increase production quotas, albeit less than expected, had little impact on the oil price.

We remain cautious on risk assets and especially US equities. In our view, the US market is expensive, investor positions are stretched and geopolitical risk could resurface. In fixed income, we are still neutral on duration and continue to prefer carry strategies.

EUROPEAN EQUITIES

Unsurprisingly, the ECB left its rates unchanged. The bank thinks current levels are right and chair Christine Lagarde said she was satisfied now that growth had turned out to be more resilient than expected and inflation practically down to the bank's targets. In the US, August CPI provided confirmation that inflation was slowly spreading through the economy. Even so, investors chose to focus on the worsening jobs market, a deterioration that is reinforcing rate cut chances and underpinning markets. In France, the appointment of centrist Sébastien Lecornu as prime minister had no real effect on markets. But French companies that had previously suffered from political risk rebounded on assumptions a dissolution was less likely in the short term. Market trends suggested investors were still relatively keen on European cyclical.

In specialist retail, **Inditex**, the parent company of ready-to-wear chain Zara, said trading had been upbeat in the last five weeks. In contrast, **AB Foods**, which owns Primark, said it expected the second half of this year to be more difficult in Europe. **Technip Energies** (energy projects and technologies) is to buy US-based **Ecovyst's** Advanced Materials & Catalysts business. The acquisition will reinforce **Technip's** catalyst, carbon capture and sustainable fuel capabilities. **Anglo American** is to merge with **Tech Resources** to form the world's 5th largest copper producer. **Kering** has put back exercising its call options on the 70% of **Valentino** it does not own until 2028-29. Management wants to concentrate on its recovery plan and on reducing its high debt levels.

US EQUITIES

In a buoyant week on Wall Street, the S&P 500 gained 1.63% in USD and the Nasdaq 100 1.44%, with both hitting new all-time highs. Momentum was driven by the likelihood of a Fed rate cut, tame inflation and fresh signs of labour market weakness. Weekly jobless claims, for example, reached highs not seen since 2021. Elsewhere, latent tensions were rekindled after conservative influencer Charlie Kirk was shot dead by a sniper during a meeting in Utah; the murder is a potent token of the increasing polarisation of US politics. Trade tensions continued to simmer in the background. Mexico, bowing to pressure from Washington, is planning to introduce a 50% tax on Chinese cars and the Trump administration is thinking about extending tariffs on steel and aluminium, a move that could upset the trade truce with the European Union.

In the tech sector, **Oracle** rocketed 32% after its order book ballooned to an extraordinary \$455bn. The news bolstered the impression that structural demand for AI and cloud businesses is extremely strong. **Adobe** raised annual guidance, citing strong demand for its AI software while **Apple** fell 4% after its new iPhone 17 was considered to be lacking in truly innovative features. In retail, **Kroger** raised guidance thanks to robust like-for-like growth. In healthcare, **AbbVie** (+3.6%) settled its legal dispute over **Rinvoq** so generic versions will not appear before 2037. Industrials were more vulnerable. **Boeing** (-4.21%) said 777X certification would once again be delayed and is now expected after 2026. **Delta Air Lines** (-1.61%) raised guidance for the third quarter but its transatlantic performance disappointed investors. The gold ounce broke above \$3,600 and is now up 37% YTD due to central banks buying gold and prevailing geopolitical tensions.

EMERGING MARKETS

The MSCI EM index was up 2.74% in USD this week as of Thursday. All major emerging markets trended higher. Korea, Taiwan, China, Mexico, Brazil and India were up by 4.80%, 4.79%, 2.92%, 2.76%, 1.48% and 1.00% respectively.

In **China**, August imports rose 1.3% YoY, or below the 3.4% rise expected, while exports were up 4.4%, or lower than the 5.5% expected. The trade balance with the US rose to \$102.3bn from \$98.2bn. August CPI was down 0.4% YoY against expectations of -0.2%, the lowest reading since February 2025, while PPI was down 2.9% YoY, in line with expectations, and in negative territory for the 35th straight month. Shenzhen city joined other major cities such as Shanghai and Beijing in further easing home-buying rules, allowing eligible families to buy unlimited properties in several districts.

In **Taiwan**, August CPI was 1.6% YoY, or in line with expectations. August imports jumped 29.7% YoY, or ahead of the 26.1% expected. August exports were up 34.1% YoY, or better than the 25% expected. TSCM reported strong operating data for the first two months of the quarter with the revenue run rate ahead of guidance.

In **Korea**, exports for the first 10 days of September rose 2.8% YoY, while imports were up 11.1%. The government eased a seven-year restriction that excluded crypto companies from venture status, opening the door to tax incentives and better financing options.

In **India**, net inflows into equities in August fell 23% from July's all-time high to Rs 487bn MoM. It was, however, still the second highest amount in 2025. Infosys announced a RS 180bn buyback programme. The government signed an MoU with Macrotech Developers to develop a Rs 300bn green integrated data centre park, with a planned capacity of 2GWs. Varun Beverages entered a joint venture with Everest International Holdings to focus on manufacturing visi coolers and other refrigeration equipment.

In **Brazil**, August inflation rose 5.13% YoY as expected. July retail sales rose 1% YoY, or ahead of expectations of a 0.8% rise. The Supreme Court found former president Jair Bolsonaro guilty of attempting a military coup to stay in power after his 2022 election loss.

In **Mexico**, August CPI was up 3.57% YoY as expected. Industrial production fell 2.7% YoY, or more than the 0.9% rise expected. The government is planning to impose tariffs of as much as 50% on cars and other products made by China.

In **Indonesia**, long serving finance minister Sri Mulyani was replaced in the wake of political unrest in the country.

In **Argentina**, PM Milei's party lost the provincial election in Buenos Aires ahead of the congressional polls next month.

CORPORATE DEBT

Monday's strong downward revision in US employment added further impetus to the chances of Fed rate cuts this year. The ECB, in contrast, left its rates unchanged as expected and said disinflation had no doubt come to an end. Markets now see little chance of any further significant cuts this year. Yields on the 2-year Bund rose from 1.92% to 2% but the 10-year Bund was unchanged. France's political situation also dominated this week's news. PM François Bayrou lost his confidence vote but France's bonds, both government and corporate,

continued to regain the ground lost when he first announced the vote. The rapid appointment of Sébastien Lecornu to replace him has so far maintained stability.

Over the week, investment grade returned 0.10% and high yield 0.18%. The Xover had tightened by 10bp to 253 as of Thursday's close.

The new issues market remained busy across all segments. New AT1 deals included **Société Générale** (€1bn at 6.125% and a 2032 call), **Raiffeisen** (€500m at 6.375% and a 2031 call) and **Abanca** (€500m at 6.125% and a 2031 call). Demand was strong for all three deals. **Bank of Cyprus** jumped on market conditions to recall its Tier 2 bond and raise €300m at swap+195bp. In corporate hybrids, **Vodafone** sold two €700m bonds at 4.125% and 4.625% with first calls in 2032 and 2035. Euro-denominated high yield deals revived with **Iron Mountain** (€1.2bn, Ba3/BB-, at 4.75% 8nc3), **Ziggo** (€650m, B1, at 5.25% 7nc3) and **Evoke** (€600m, B2/B-, at 8% 6n2) and Inpost (€850m, Ba1/BB+ at 4% 6nc2). **CEME Spa** had a small tap on its floating rate notes.

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.

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