



EDMOND DE ROTHSCHILD ASSET MANAGEMENT

MARKET FLASH: MARKETS ADAPT TO FRANCE'S POLITICAL INSTABILITY

- Sébastien Lecornu's surprise resignation caused French stocks to falter momentarily. However, the former French Prime Minister's stated desire to avoid a dissolution reassured investors.
- The election of Sanae Takaichi as head of the PLD party led to a sharp rise in Japanese equities and a fall in the yen, due to her positions in favor of accommodative fiscal and monetary policies.
- The European Union wants to protect its steel industry by halving import quotas and raising levies on imports above this quota to 50%. Meanwhile, in the United States, the government shutdown persists without a clear resolution in sight.

With no economic data in the US, and before banks kick off the third-quarter earnings season next week, markets focused on political developments.

France's political soap opera starred at the beginning of the week. The government formed on Sunday evening collapsed on Monday morning. French equities immediately tanked and government bond yields rose, increasing spreads with other eurozone countries, and especially Germany. But the risk aversion episode was short-lived. The situation started to stabilise as early as Monday afternoon and investors were reassured after Sébastien Lecornu, the resigning prime minister, said he was determined to find a compromise to avoid a dissolution of parliament, or at least postpone it.

In Japan, Sanae Takaichi was elected head of the PLD party so she should become the country's first woman prime minister. Japanese equities surged and the yen retreated because she is in favour of expansionary fiscal policies and an accommodating monetary stance. As a result, a probable rate hike from the Bank of Japan has been pushed back. However, at the end of the week, Komeito, the other coalition party, put pressure on Japanese assets by expressing doubts on joining the government.

In the US, visibility on an end to the shutdown is sketchy. The release of the FOMC minutes showed broad agreement on cutting rates due to the worsening jobs markets but some committee members said they were worried about inflation. Even so, markets are still banking on two more rate cuts before the end of the year. Donald Trump focused on peace talks between Israel and Hamas. Both sides ended up accepting a cease fire.

A new salvo of customs tariffs emerged. The European Union wants to protect its steel industry by halving import quotas and raising levies on imports above this quota to 50%. China is to introduce special port duties for US ships from October 14. The move was a riposte to a similar decision in the US targeting Chinese ships.

Prevailing political and geopolitical uncertainty sent the gold ounce above \$4,000 for the first time and helped the dollar move to below 1.16 against the euro.

We are still cautious on risk assets and US equities in particular. We are more positive on duration, and especially emerging country debt, and we still like highly-rated company bonds.

EUROPEAN EQUITIES

France's political crisis dominated European news after the recently appointed PM Sébastien Lecornu handed in his resignation. Nevertheless, he accepted a mission to find a solution to the deadlock and on Wednesday he said he was optimistic an agreement could be reached to form a new government and avoid a dissolution of parliament. In the US, the shutdown continued but without much additional pressure on Treasury yields.

There was notable relief in France as the CAC 40 moved back above 8,000 driven by luxury stocks like **LVMH**, **Hermès** and **Kering** on broker upgrades. Badly hit stocks like **Thales**, **Société Générale**, **BNP Paribas** and **Orange** rebounded sharply. Holland's **ASML**, in contrast, sold off after a special House of Representatives commission accused the company of selling equipment to State-owned Chinese companies with links to the army. **Stellantis** said preliminary estimates of third-quarter sales indicated a 13% increase. This was more than expected and provided confirmation of a recovery in the US.

US EQUITIES

Wall Street ended the period higher despite the ongoing shutdown. The S&P 500 and the Nasdaq 100 hit fresh highs, up 0.29% and 1.26% in USD, respectively. Momentum was driven essentially by hopes for further rate cuts. The FOMC minutes tended to weigh towards another rate cut before the end of this year even if the rate-setting committee remained divided on the pace. The shutdown entered its second week so markets were still without official data. Washington pressed on with strong arm tactics by proposing a ban on flights between the US and China flying over Russian territory. The Trump administration also announced 25% tariffs on medium and heavy truck imports into the US from November 1st.

AI and semiconductors continued to take centre stage. **AMD** rocketed 41.43% after news of a massive partnership with **OpenAI** to provide 6 GW of AI GPU clusters starting with the new M1450 chip. However, a new report from The Information, a US tech-focused business publication, fuelled debate over **Oracle's** AI profitability and **OpenAI's** Sora app faced questions over copyright compliance. **Tesla** gained 1.33% after launching two cheaper models in a move to build market share. Meanwhile, the NHTSA, which monitors vehicle safety standards in the US, initiated an enquiry into Tesla's autonomous driving option. **Delta Air Lines** (+4%) raised guidance and **United Airlines** (+6,3%) followed suit. **Ford** slumped 9% because of a risk following an incident at an aluminium supplier. Financials were again in focus ahead of the third-quarter earnings season with reports expected from **JP Morgan**, **Goldman Sachs**, **Citigroup** and **Wells Fargo**.

Energy, house builders and consumer staples all underperformed over the period. The gold ounce hit a new all-time high above \$4,000 before falling back sharply on profit taking and a temporary easing in geopolitical tensions.

EMERGING MARKETS

The MSCI EM index had advanced by 0.16% in USD as of Thursday with most of Asia on holiday and fewer trading days. Taiwan and India were up by 1.58% and 0.91%. Brazil, Mexico, and China declined by 1.64%, 1.49%, and 0.88%, respectively.

In **China**, M2 money supply grew 8.5% YoY in September. China and the US are seeking leverage in trade talks ahead of a potential summit at APEC with a new wave of headlines on trade barriers and export controls. Overall Golden Week Consumption numbers were soft, with daily average tourist visitors up by 1.6% YoY but a 0.6% decline in spending. Retail sales of key monitored enterprises were up 2.7% during the period. **BYD** confirmed it would start production at its Hungarian plant by the end of 2025. **Xiaomi** said total sales of the Xiaomi 17 series had increased by over 20% YoY.

In **Taiwan**, September exports rose 33.8% YoY, but below the 38.8% increase expected. September imports were up 25.1% YoY, or above the 22.5% rise expected. **Accton's** September quarter revenues beat the consensus by 26%, rising 142% YoY thanks mainly to Amazon's Trainium. Third quarter NT\$ sales at **TSMC** were up 6% QoQ vs. midpoint guide of a 0.6% rise. The group successfully rolled out a 1st batch of 12" 2nm wafers in a trial run. **Hon Hai** September sales hit a record high with third-quarter sales up 15% QoQ.

In **Korea**, **LG** is ramping up its efforts to lead artificial intelligence infrastructure and presented its integrated One LG solution for AI data centers. LG India's \$1.3bn IPO was 54 times oversubscribed. **OpenAI** officials toured **Samsung Electronics'** semiconductor manufacturing facilities following a partnership deal for its Stargate projects

In **Vietnam**, FTSE Russell upgraded the country to secondary emerging market status.

In **India**, seasonally adjusted services PMI declined to 60.9 in September from 62.9 in August. The pace of increase in the new export orders index declined to a six-month low, reflective of softer international demand. RBI released draft directions for revised Basel 3 credit risk and ECL frameworks. The health ministry announced revised rates for nearly 2,000 medical procedures under the Central Government Health Services. As indicated in various media articles, the White House shelved plans to impose tariffs on generic drugs. The articles said the US administration was not actively discussing imposing Section 232 tariffs against generic pharmaceuticals. **Bajaj Finance** reported new loan growth of 26% YoY for the second quarter, or in line with guidance. **DMART** reported 15% revenue growth in the second quarter or less than the 20% expected. Titan reported 20% YoY growth in the second quarter, or well above the 8% estimated. **Eli Lilly** announced plans to invest more than \$1bn in India over the next few years to build new contract manufacturing capabilities. **Google** is set to invest \$10bn in a datacentre cluster with 1GW capacity. **TCS** announced a \$8bn investment in a new datacenter facility.

In **Brazil**, September inflation was as expected up 5.17% YoY. August industrial production fell 0.7% YoY, or less than the 1.3% decline expected. September's Composite PMI fell to 46.0 from 48.8. The finance minister reiterated that the government was mapping out the possibility of adopting fare-free public transport in the country. Congress blocked a bill to increase tax on dividends.

In **Mexico**, September CPI was 3.76% YoY, or in line with expectations. Gross fixed investment declined 6.6% YoY in July, or less than the 7.3% fall expected. Grupo Mexico presented a binding offer to acquire 100% of Citi's Mexico affiliate, Banamex. OMA said September traffic was up by 9% YoY, or higher than peers and consensus expectations.

In **Peru**, in a move that surprised the market, Congress voted to remove President Dina Boluarte.

In **Argentina**, the US finalised a \$20bn currency swap, with the United States directly purchasing pesos.

CORPORATE DEBT

Scepticism and caution returned to credit markets and particularly the high yield segment. The FOMC minutes revealed that committee members had very different views on the pace of future rate cuts. Elsewhere, details on **First Brands'** sudden bankruptcy cast aspersions on certain private equity practices. The Xover widened by 10bp to 270bp over the period.

Investment grade returned 0.1% thanks to a slim narrowing in bond yields. High yield ended the period 0.4% lower, essentially due to underperformance from lower-rated companies and/or sectors like chemicals and packaging. There were only a few new deals this week after September's rush. Of note was an AT1 from Greece's **Piraeus Financial** at 6.1205%.

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.

DISCLAIMER**This is a marketing communication.***10/10/2025*

This document is issued by the Edmond de Rothschild Group. It is not legally binding and is intended solely for information purposes. This document may not be communicated to persons located in jurisdictions in which it would be considered as a recommendation, an offer of products or services or a solicitation, and in which case its communication could be in breach of applicable laws and regulations. This document has not been reviewed or approved by a regulator of any jurisdiction. The figures, comments, opinions and/or analyses contained herein reflect the sentiment of the Edmond de Rothschild Group with respect to market trends based on its expertise, economic analyses and the information in its possession at the date on which this document was drawn up and may change at any time without notice. They may no longer be accurate or relevant at the time of reading, owing notably to the publication date of the document or to changes on the market. This document is intended solely to provide general and introductory information to the readers, and notably should not be used as a basis for any decision to buy, sell or hold an investment. Under no circumstances may the Edmond de Rothschild Group be held liable for any decision to invest, divest or hold an investment taken on the basis of these comments and analyses. The Edmond de Rothschild Group therefore recommends that investors obtain the various regulatory descriptions of each financial product before investing, to analyse the risks involved and form their own opinion independently of the Edmond de Rothschild Group. Investors are advised to seek independent advice from specialist advisors before concluding any transactions based on the information contained in this document, notably in order to ensure the suitability of the investment with their financial and tax situation.

Past performance and volatility are not a reliable indicator of future performance and volatility and may vary over time, and may be independently affected by exchange rate fluctuations.

Source of the information: unless otherwise stated, the sources used in the present document are those of the Edmond de Rothschild Group. This document and its content may not be reproduced or used in whole or in part without the permission of the Edmond de Rothschild Group.

Copyright © Edmond de Rothschild Group – All rights reserved

EDMOND DE ROTHSCHILD ASSET MANAGEMENT (FRANCE)

47, rue du Faubourg Saint-Honoré 75401 Paris Cedex 08

Société anonyme governed by an executive board and a supervisory board with capital of 11.033.769 euros

AMF Registration number GP 04000015

332.652.536 R.C.S. Paris