EDMOND DE ROTHSCHILD

EDMOND DE ROTHSCHILD ASSET MANAGEMENT

MARKET FLASH: GLOBAL MARKETS ARE HANGING ON SIGNS OF A MIDDLE EAST DE-ESCALATION

- **The markets initially welcomed every sign of de-escalation: Government bond yields eased, equity markets rebounded and Brent crude fluctuated between $100-110.**
- **Donald Trump's address on Wednesday evening soured the mood. He said the war would be short, just another two to three weeks, but threatened to destroy Iran's energy infrastructure if Washington's demands were not accepted.**
- **In China, March PMI hit a high not seen since March 2025, providing confirmation that manufacturing was resilient, while in Japan, the Tankan manufacturing index trended higher in the first quarter.**

Market trends this week reflected some cautious optimism among investors. Any sign of a possible de-escalation in the Middle East conflict triggered buying even without any concrete signs of the Strait of Hormuz reopening. Nevertheless, uncertainty persisted because of ambivalent statements from the US. We were told there were serious discussions with the "new Iranian regime" but that the country's energy infrastructure could be targeted. Then Donald Trump said US troops might be withdrawn even if Hormuz remained shut as the goal of stopping Iran from developing a nuclear bomb had been met. And then he announced that the US could quit NATO as several US allies had not been supportive enough over the Iran war. And yet, markets advanced despite this persistent tension. Government bond yields eased, equity markets rebounded and Brent crude fluctuated between $100-110. The main reason for this was a fall in rate hike expectations and Jerome Powell's move to a more wait-and-see stance. And then Donald Trump's address on Wednesday evening soured the mood. He said the war would be short, just another two to three weeks, but threatened to destroy Iran's energy infrastructure if Washington's demands were not accepted. Equity indices fell back and both government bond yields and oil prices moved back higher.

Energy prices drove Inflation in the eurozone to an annualised 2.5% but underlying inflation remained under control at 2.3%. Unemployment edged higher in February. The US economy is holding up better: the Conference Board's consumer confidence index rose in March, retail sales were better than expected, the private sector created 62,000 jobs and manufacturing ISM came in at 52.7, or above the 52.3 expected. In China, March PMI hit a high not seen since March 2025, providing confirmation that manufacturing was resilient, a situation reflected in recent renminbi strength. And in Japan, the Tankan manufacturing index trended higher in the first quarter.

In today's cocktail of volatility mixed with global macroeconomic resilience, we are obviously keeping a close eye on any talks between the US and Iran. Our strategy is to buy on equity market weakness and we continue to prefer corporate and emerging country debt.

EUROPEAN EQUITIES

Trading this week was confronted with a paradox: on the one hand, governments are trying to offer reassurance but the actual situation is still worrying. The Trump administration continued to prioritise talk of the Middle East conflict ending soon amid ongoing discussions with Tehran. This allowed investors to turn guardedly optimistic and keep Brent crude prices below $110. And yet the reality on the ground is that there are still no real signs of any de-escalation. The conflict is far from over and reopening the Strait of Hormuz is still the main focus.

Meanwhile, the energy shock started to feed through in Europe. Inflation accelerated in Spain, Germany, France and the eurozone, moving above the 2% target largely due to soaring energy costs. Admittedly, underlying inflation remains under wraps but the ECB, focusing on the possibility of lagging effects, continued to prepare markets for a return to rate hikes in the coming months.

In company news, **GTT** said trading was still buoyant, despite the Middle East conflict, thanks to efforts to diversify suppliers. In addition, positive commercial momentum was reflected in a new order for two LNG tankers. Elsewhere, **Nike** warned that sales would fall in its fourth quarter. This offers some relative support for **Adidas**, which has an opportunity to reinforce its position and defend market share. First-quarter results at property logistics company **Argan** were in line, confirming the group's revenue prospects for 2026 as a whole. **CSG** sold off as its 2026 objectives were deemed disappointing. And yet its annual results were robust and profits jumped 35.5% over a year. In other company specific news, **Accor** announced the sale of its **Essendi** stake for an amount that could reach €975m,**Unilever** is in advanced talks to merge its food business with **McCormick**, **Alstom** won a €700m systems contract in the Ameca region and after **Eiffage** raised its stake in Channel tunnel operator **Getlink**, **Mundys** is preparing to take its own stake to 25%.

US EQUITIES

Wall Street rallied after steep falls at the end of March The S&P 500 gained around 3.24%, the Nasdaq Composite 4.26% and the Russell 2000 ended 2.56 % higher.

On markets, sector shifts varied sharply. Consumer discretionary bounced 4.28% on upbeat retail sales and encouraging results in leisure and the restaurant trade. **Dave & Buster**'s rose on solid prospects while companies more exposed to China or to Europe like **Nike** suffered from varied regional performance. IT rebounded 3.85% after a poor end of March. AI sectors and megacaps also bounced. Stocks like **Palo Alto Networks** rose on strong buying by executives, usually a sign of confidence in the future. In semiconductors, **Marvell Technology** soared after **Nvidia** bought a stake even if markets are still wondering about returns from massive AI investments.

Cyclicals also rebounded. Industrials gained 3.25% and materials 3.39% on strength in infrastructure, metal and defence stocks. **Boeing** rose on new military orders. Healthcare rose 3.12% on big pharma gains. **Eli Lilly** advanced after the FDA approved its daily GLP-1 weight loss drug, thereby reinforcing its leadership in the segment. Biotech stocks were more volatile but interest in the segment is recovering as investors look for growth in less cyclical areas Financials rallied by 3.25% as interest rates stabilised and investors bet on upbeat first quarter results. Banks and some payment services companies joined in the rebound although private credit is still under surveillance following more press reports on liquidity and asset quality issues in some specialised funds.

Real estate also gained 2.25% on bargain hunting despite the persistently high cost of capital. In stark contrast, energy tanked 5.78% after several weeks of strong outperformance. Markets seem to have factored in oil prices above $100 and companies sensitive to crude price volatility saw profit taking as markets tried to anticipate a possible end to the Middle East conflict. Elsewhere, **SpaceX** filed for an IPO. Press reports said the group is targeting a valuation above $1.75 trillion. If so, it would be one of the largest IPOs ever.

EMERGING MARKETS

In China, March official manufacturing PMI came in at a 12-month high of 50.4. The NBS non-manufacturing PMI registered 50.1 in March vs. 49.9 estimated. EV exports worldwide rose 112% YoY to 196,073 units in February, with Brazil emerging as the top destination with 30,194 units, up 1,804% YoY. **Moutai** announced price hikes for its core product Feitian Moutai. **TCL Electronics** agreed to buy a 51% stake in **Sony Group**'s global home entertainment business for $472m. **Alibaba Group** Holding released its third proprietary AI model, Qwen3.6-Plus, to focus on profiting from its flagship artificial intelligence services.

In South Korea, March exports jumped 48.3% YoY, or ahead of the 44.3% expected. February industrial production was down 2.2% vs. the expected 0.7%.

In **Taiwan**, March manufacturing PMI came in at 53.3 vs. the previous reading of 55.2. TSMC secured government approval to deploy its advanced 3-nanometer process at its second semiconductor facility under construction in Japan

In India, February industrial production rose 5.2% YoY vs. expectations of 4.2%. Bank credit grew at 14.5% YoY in February. The Reserve Bank of India is to put curbs on large dollar-bet positions by banks, taking down the exposure per bank from $1bn to $100m. Russian Deputy Prime Minister Denis Manturov undertook a two-day visit to review bilateral ties. **Alpha Wave Global** is leading a $1bn funding round in **Bharti Airtel**'s data centre arm **Nxtra Data Ltd.**, investing $435m while **Carlyle** is contributing $240m.

In Brazil, **Petrobras** raised jet fuel prices by 55%. **Banco do Brasil SA** is weighing fresh financial relief for farmers hit by the Iran war, including extending loan maturities. **Advent** announced plans to buy an 8% to 10% stake in **Natura Cosmeticos**. **Meli l**aunched its pharmacy pilot, focusing on OTC products. **TikTok** filed for a fintech license in Brazil. Lula confirmed Geraldo Alckmin as Vice President in the race for the presidency.

In Mexico, fuel retailers agreed to cap diesel prices following talks with the government, extending a voluntary cap on gasoline prices to diesel sales. Mexico and Switzerland agreed to begin the modernisation of their free trade agreement. The Ministry of Finance released the Preliminary Economic Policy Guidelines, proposing a lower fiscal deficit on lower expenditure.

In **Peru**, **Arca Continental** and **Heineken** announced an exclusive nationwide distribution agreement in Peru, effective in this quarter.

CORPORATE DEBT

The market continued to trade on news from the Middle East as the conflict entered its 5th week. Traders desperately looked for signs of an end to the war and the reopening of the Strait of Hormuz. Donald Trump's interventions blew hot and cold while Tehran insisted there were no talks with Washington so volatility stayed strong across equity, government bond and credit markets. The one concrete fact we can see is that Donald Trump is looking for an exit strategy. But only a few tankers are still getting through the Strait of Hormuz.

Markets enjoyed a rally on Wednesday after yet another comment from Donald Trump on the war ending soon. So returns between Monday and Wednesday's close were good and the Xover tightened by 35bp. Over this short period, investment grade returned 0.76% as interest rates fell back, and high yield gained 0.53%. Euro CoCos were up 1.17%. But the US president's address to the nation on Wednesday evening provided no clear indications and markets fell back on Thursday morning. Life continued on the new issues market but in more muted conditions. In financials, **ABN Amro**, **OpBank** and **Talanx** issued senior debt. In high yield, video game company **Electronic Arts** (Ba3/BB) raised the equivalent of $6.62bn in three tranches (including a euro tranche yielding 6.25%).

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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