



## EDMOND DE ROTHSCHILD ASSET MANAGEMENT

### MARKET FLASH: THIS TRUCE IS AS FRAGILE AS CRYSTAL GLASS

- **De-escalation in the Middle East led to a fall in government bond yields and a rebound in risk assets. Monetary policy expectations were also revised lower.**
- **The IEA's chairman said oil supply constraints could worsen markedly in April. 12 million barrels a day will be lost once tankers already at sea when hostilities broke out have delivered their cargoes.**
- **March business surveys show that the eurozone was more affected by the conflict than the US. In the eurozone, PMIs look more fragile in countries like Italy which are heavily exposed to exports to the Gulf and surveys are now in contraction territory.**

**Donald Trump had threatened to wipe out Iran's entire civilisation but a last-minute ceasefire between the US and Iran was reached on Tuesday evening. Tehran's 10-point plan demands the US commits to a non-aggression pact, the withdrawal of US combat forces from the region, a ceasefire on all fronts, including the "Islamic resistance" in Lebanon, continuation of Iran's control over the Strait of Hormuz, Iran's right to enrich uranium, the lifting of all sanctions on Iran and compensation payment to Iran for war damage. Donald Trump said the document was a viable basis for talks but it is markedly different from the US 15-point proposal which is focused on ending Iran's nuclear programme, handing over enriched uranium stockpiles, limiting ballistic missile capacities and enabling international forces to secure free passage through the Strait of Hormuz. Benjamin Netanyahu officially supported the truce but Israel said its operations against Hezbollah in Lebanon were not included. This exception and the reopening of Hormuz are the main sticking points the talks will have to tackle.**

**But for the moment, the de-escalation had an immediate impact on energy prices. At the same time, Iran and Oman floated the idea of a \$1-a-barrel toll for tankers using the Strait of Hormuz which Tehran has yet to reopen. The IEA's chairman said oil supply constraints could worsen markedly in April. 12 million barrels a day will be lost once tankers already at sea when hostilities broke out have delivered their cargoes.**

**De-escalation in the Middle East led to a fall in government bond yields and a rebound in risk assets. Monetary policy expectations were also revised lower. In the UK, for example, investors now only expect just under two rate hikes this year when they were going for four at the height of the conflict. There remains, however, a strong inflationary shock. Prices are expected to rise by 1% depending on the country for March alone but the impact is viewed as fleeting providing the conflict ends for good.**

**This week's macro data showed that activity was strong in February before the conflict started, and especially in the US. Retail sales rose 0.6% MoM, or more than the 0.5% expected. January's reading was revised to minus 0.1%. Consumer spending rose by an annualised 2.5% in February and GDP growth for the fourth quarter of 2025 was revised to 0.5% on an**

annualised quarterly basis. Unemployment fell to 4.3% while wage growth slowed to 3.5% over a year, or less than the 3.7% expected and 3.8% in February. The data suggest some easing in nominal labour market tensions.

March business surveys show that the eurozone was more affected by the conflict than the US. US services ISM fell from 56.1 to 54 but remained in expansionary territory. The price component rose from 63 to 70.7 in a confirmation that costs in services are still elevated. In the eurozone, PMIs look more fragile in countries like Italy which are heavily exposed to exports to the Gulf and surveys are now in contraction territory.

Given the willingness to end the conflict and the choice of JD Vance to lead talks for the US, we have continued to reweight risk in our diversified equity and corporate bond portfolios. We have also added duration to the short end of the curve to benefit from downward revisions to central bank hike expectations.

## EUROPEAN EQUITIES

The Iran conflict continued to dominate trading. Despite the announcement of a ceasefire, the conflict is not yet over for good so enthusiasm was capped. The Strait of Hormuz is yet to be reopened to any extent and drone attacks continued to target energy infrastructure and pipelines amid persistent uncertainty over the exact details of a lasting agreement. France reacted to this increasingly tense situation by reinforcing its defence efforts by €36bn up to 2030. This will take defence spending to 2.5% of GDP.

In positive company news, defence company **Exosens** rose on news of a record order for thermal cameras in military drones but the stock ended up falling when investment fund HLD said it planned to sell another stake. **Exail Technologies** won a new contract to provide surface drones used in submarine mapping. On the downside, orders and deliveries at **Airbus** fell in March as the group weathered a more difficult first quarter. **Sodexo** also had a difficult start to its financial year as operating margins contracted more than expected. In the media sector, **Publicis** and **Microsoft** agreed to extend their partnership to build an AI-driven marketing solution. The arrangement will help the French group reinforce large scale personalisation capacity. **Bureau Veritas** acquired **Lotusworks**, a global specialist in commissioning, quality assurance and quality control for critical infrastructure projects. **EssilorLuxottica** bought a large stake in **Top Charoen**, Thailand's largest optical chain with more than 2,000 locations. **Danone** is looking to buy **Mead Johnson's** infant nutrition division to reinforce its US exposure.

## US EQUITIES

Wall Street extended its rally. The S&P 500 jumped by around 3.68 % and the Nasdaq Composite 4.31 %. The Russell 2000 ended 4.20 % higher. The S&P 500 racked up 7 winning sessions in a row and is now a little more than 2% off its record high reached at the end of January.

In this week's returns, consumer discretionary gained 5.23% as consumer spending remained healthy and investors rotated into more cyclical sectors. In retail and apparel, **Levi Strauss** rose on better-than-expected results and improved guidance on the outlook, especially in Europe and Asia. Travel and leisure stocks gained as the geopolitical risk premium

retreated even if companies with exposure to the most troubled zones remained under close watch.

Tech and IT gained 4.02% as AI continued to drive sentiment. **Amazon** highlighted a surge in demand for computing power and its proprietary chip business is now expected to generate close to \$50bn in annual revenue. **Meta** released a new AI model and is reinforcing its infrastructure while semiconductor stocks rose on upbeat news in network and optical equipment. But stocks like **Zscaler** and **Gitlab** weighed on the software segment and aggravated sector dispersion after analyst downgrades on concerns over AI competition.

Industrials (+5.14%) were lifted by companies like **Delta Air Lines** -satisfactory figures and reassuring comments on demand - as well as equipment and construction plays which should benefit from lower energy costs and less volatile interest rates.

Healthcare (+1.71%) was underpinned by insurers after an update to Medicare Advantage rates turned out to be more favourable than expected. **UnitedHealth** was a main beneficiary. In medtechs, **Staar Surgical** gained on strong prelims.

Financials (+3.63%) rallied as interest rate volatility eased. Major banks and payment companies rose in anticipation of a strong earnings season. Private credit, however, remained a worry due to waves of redemptions in some funds and the looming maturity wall. A main concern is the software sector with pressure on companies with exposure like **Blue Owl**.

Consumer staples (+1.93%) were lifted by upbeat results in the food and drinks sector. **Constellation Brands**, for example, beat expectations even if management sounded a cautious note on medium term prospects.

In contrast, energy slumped 3.30% after outperforming over several weeks. WTI's plunge triggered profit taking on oil majors and companies with high exposure to crude oil volatility. **ExxonMobil** suffered from adjustments to earnings expectations. Markets are also factoring in a gradual return to normal conditions in the Middle East even if the Strait of Hormuz has only reopened a little.

## EMERGING MARKETS

Emerging markets rallied this week, with all major markets ending in positive territory. The MSCI EM Index rebounded by 6.12%, outperforming global markets. Korea, Taiwan, and India-laggards since the war began-led this week's gains, jumping 11.28%, 8.18%, and 5.7%, respectively. China underperformed relative to peers but still advanced by 2.64%.

In **China**, PPI growth turned positive at +0.5% for the first time in three years, supported by higher energy costs, while CPI came in softer sequentially and below expectations. The PBoC increased its gold reserves for the 17th consecutive month. According to CPCA data, March NEV retail sales recovered sequentially, with combined penetration reaching 47%, while exports surged to a record 349,000 units amid energy and oil price shocks. Regulators urged key power and energy storage manufacturers to control production and regulate price competition. **Alibaba** appointed Li Feifei, former Google Cloud Chief Scientist of AI, to lead Alibaba Cloud's technology as CTO. **Tencent Cloud** followed peers in raising prices amid surging AI computing demand and rising supply chain costs.

In **Taiwan**, exports rose by a record 62% vs. 35% expected, supported by AI demand. The opposition leader visited mainland China for the first time in a decade. **TSMC's** March sales

came in exactly in line with the midpoint of management guidance. **MediaTek** said March sales were up 62% MoM and 13% YoY, or above mid-point guidance and consensus.

In **South Korea**, **Samsung's** preliminary first-quarter earnings beat expectations. **TrendForce** flagged potential delay risks for **Nvidia's** Rubin platform due to supply chain adjustments.

In **India**, the RBI kept rates unchanged at 5.25% as expected. **Titan** reported a strong business update, with 46% YoY revenue growth. **DMart** also delivered better-than-expected results. **TCS** saw deal wins and sequential revenue growth, driven by energy, utilities, and consumer verticals, with guidance pointing to a gradual improvement.

In **Brazil**, the government announced its intention to release R\$7bn from FGTS in a package to reduce household debt. Steel imports increased 32% QoQ, due to front loading of shipments before higher tariffs. In March, foreign inflows into Brazilian exchange (B3) were lower than January and February, but remained positive at \$2.3bn, despite the war newsflow. **Iberdrola** bought 14% of Brazil's **Neoenergia** (paying a multiple of 6-7x EV/EBITDA).

In **Mexico**, the central bank delivered a dovish message about a June rate cut.

In **Colombia**, the government announced a new 30% cap for pension funds investing in international assets - international exposure is close to 50% currently. S&P downgraded Colombia's long term sovereign rating

## CORPORATE DEBT

Washington and Tehran reached a two-week ceasefire agreement at the very last minute. With the worst case avoided, markets radically reversed direction on Wednesday. Brent crude tumbled to \$95, a low not seen since March 11 and yields on Germany's 10-year Bund retreated by 14bp to under 3%. Spreads on the Xover plunged by 40bp. The situation, however, is still fragile. The US, Israel and Iran have not yet agreed on the ceasefire's exact conditions. The main sticking point is whether Lebanon is included. Teheran is for but Tel Aviv is against although Benjamin Netanyahu announced at the market's close on Thursday that direct talks would begin with Beirut. Tensions on government bond yields persisted at the end of the week ahead of CPI data in the US on Friday afternoon. The index is likely to reveal the impact of the Middle East conflict.

In the euro segment over the week, Investment Grade rose 0.43%, Hybrid Debt 0.97%, High Yield 0.74% and CoCos 1.32%. This opened the way for new issues, especially in Hybrid Debt. **Engie's** deal was in three tranches (€1bn NC<sup>1</sup>5,25 at 4.375%, €600m NC8 at 4.825% and €400m NC6 at 6.125%) while **General Mills's** deal had two (€1bn NC5.25 at 4.75% and €700m NC8.25 at 5.25%). In High Yield, **Clariane's** refinancing deal raised €500m due 2031. The issue was the first to carry the B+/B2 rating awarded at the beginning of April.

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<sup>1</sup> "NC" stands for "Non-Call", meaning non-redeemable (or non-callable) before a certain date.

**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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**This is a marketing communication.**

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