2pm PERSONALIZED PORTFOLIO MANAGEMENT

Quarterly market review

OCTOBER 2025

Editorial

In a development which seemed unlikely in April, given the unpleasant surprise the economic world received when Donald Trump imposed reciprocal tariffs, the US economy continued to grow, and equity markets experienced a strong recovery.

The main driver of this stock market rally was the shift in outlook from fears of an imminent recession to a more optimistic view, centered around several key themes, including the prospects for interest rate cuts and earnings momentum. As a reminder, in an initial bout of panic, the S&P 500 index plummeted nearly 20% between February 19 and April 7. Since then, the rise has been spectacular, with the S&P 500 gaining 33% from its low point, and even 43% for the Nasdaq index of technology stocks. This optimism has spread to Europe, which is in a weaker position from a macroeconomic perspective (see details on page 3). The Eurostoxx 50 index thus rose by more than 20% compared to its low point of April 7. The same goes for emerging markets, which recovered 37%. This once again confirms the validity of our methodology, which consists of remaining in the market and taking opportunistic and counterproductive advantage of market troughs.

Given the speed and power of the movement, it is legitimate at this stage to wonder whether it can be sustained. And given the importance of the technology sector in this rise (and especially artificial intelligence-related stocks), comparisons with the tech bubble of the late 1990s are beginning to appear here and there. Today, at more than 25 times earnings, valuation levels are in the historical high range, although without reaching the extremes seen in the first quarter of 2000.

The important question for all investors today is whether the current rally in risky asset prices is running out of steam or whether it still has a bright future ahead. Although valuations pose a serious threat, the trajectory will be dictated by two powerful drivers: interest rates and earnings.

Driver #1: Interest rates. Due to persistent residual inflation and fears related to tariffs, the Federal Reserve's (Fed) policy has been quite restrictive, much to the chagrin of the new American president, who favors a much more accommodative stance.

Today, with a somewhat slowing job market and new members of the Fed more in line with the president's views, the balance is shifting, and the Federal Reserve is adopting a less restrictive stance, which should prolong the economic expansion cycle. Thus, it lowered its key rate by a quarter of a percentage point on September 17, and two further cuts are expected by the end of the year according to the consensus, unless inflation starts to accelerate sharply again, which is not our scenario for the moment.

Reuters - https://www.heute.at/i/trump-fordert-senkung-doch-fed-haelt-leitzins-stabil-120122292/doc-1j1e9cgfi2

When we examine these additional customs duties country by country and sector by sector, it is clear that, overall, the additional cost has not necessarily been passed on 100% to the end consumer. In some cases, the cost has been absorbed by a reduction in profit margins (which Donald Trump, for example, had firmly requested of companies like Wal-Mart). In other cases, adjustments of a different nature have been made to offset this increase.

We therefore currently expect a slight, gradual increase in inflation in this context, but not to a level that would pose a problem for the Federal Reserve.

	Q3 2025	YTD 2025	Close 30/09/25
DOW JONES	5.22%	9.06%	46 397.89
S&P 500	7.79%	13.72%	6 688.46
FTSE 100	6.73%	14.41%	9 350.43
EUROST.50	4.28%	12.95%	5 529.96
CAC 40	3.00%	6.98%	7 895.94
FTSE MIB	7.37%	24.98%	42 725.32
MSCI EM	10.08%	24.82%	1 346.05
CRUDE OIL	-4.21%	-12.14%	62.37
GOLD	16.83%	47.04%	3858.96
EUR/USD			1.1734
EUR/CHF			0.9345
EUR/GBP			0.8727
EURIBOR 1M			1.929%

This is especially true since the development of artificial intelligence (see our Special Topic on page 4) is helping to mitigate the inflationary effects of customs duties. Faced with rising production costs, becoming more productive is proving to be a better option than passing on expenses to prices or absorbing them through reduced margins. For the coming months, we expect the current trend to continue: stable growth, as well as continued expansion of margins and profits, despite a slowdown in the labor market and slight upward inflationary pressure, which will nevertheless need to be monitored closely. In this context, the Fed's monetary policy should bring rates closer to around 3.0 to 3.5% by the summer of 2026, which will prolong the momentum of economic activity and should support above-average stock market valuation levels.

Driver #2: Profits. Corporate profit growth has been a powerful driver of stock market returns in recent years and is expected to continue to play a major role in the future. A key driver of rising profits has been rising profit margins. Whenever margins peak, companies find a way to increase their profits even further. And recently, much of this momentum has come from the technology sector, which has largely dominated the discussion by historical standards. In recent years, we have often seen seasonal earnings results see sales figures generally in line with forecasts, while profits significantly outweigh estimates.

This suggests that analysts are correctly assessing revenues (unsurprisingly, given the relative stability of economic growth), but regularly underestimating profitability potential. We identify two main reasons for this rise in productivity: firstly, the after-effects of experiences during the pandemic. Crises often spur innovation, and after many years of a relatively stagnant economy, the cycle of slowdown and recovery has pushed companies to respond. Secondly, technological advances, particularly in robotics and artificial intelligence, are enabling companies to do more with less. While language models (LLMs) are often the tools most associated with AI, the implications are much broader. In short, more data, more computing power, and new mathematical models are driving innovation.

This bodes well for future profit margins. As costs fall and applications become more widespread, these productivity gains will extend beyond the first movers.

Recent concerns about the pace and scale of technological infrastructure development such as data centers and new energy production sites have prompted comparisons with the deployment of telecommunications and the Internet 25 years ago. This construction phase is arguably just one step in the overall development and use of technology, and is being carried out with the help of tech giants (NVDIA, Alphabet, Microsoft, etc.) that have enormous amounts of available cash at their disposal, a major difference compared to 1999 -2000.

From an economic and profit perspective, the users of these technologies should also benefit, representing a broad and lasting opportunity. As you can see, from a strictly macroeconomic perspective, our outlook is rather constructive for the coming months.That being said, it is worth remembering that when valuations are high, as is currently the case in the United States (much less so in Europe and emerging markets, which are trading with P/Es around 16-17), the emergence of new risks or unpleasant surprises in economic data can lead to faster and more marked declines than usual.

This means that the current environment requires increased vigilance, including in the bond sector, where the very tight level of credit spreads, in both Europe and the United States, is indicative of a fairly complacent market overall.

Among these new risks, we can first cite political risk, especially in Europe, where Brussels' inept decisions on issues as important as the future of our automobile industry and the rise in public anxiety over the scale of the wave of migration are favoring the rise of more populist parties that have never yet governed. This is the case in the United Kingdom where the instigator of Brexit, Nigel Farage, is very high in the polls.

This is the case in Germany, with an AfD party at 27%, sometimes surpassing the CDU in certain Länder and an economic program containing several potentially worrying points (restart of coal-fired power stations, resumption of Russian gas imports, exit from the European Union with the withdrawal of budgetary solidarity mechanisms, etc.).

This is also the case in France, mired for more than a year in political instability worthy of the Fourth Republic with a mediocre political class giving a pitiful spectacle, paving the way for accession to power in 2027 to an RN party devoid of any responsibility at the national level but whose economic program has often varied in recent years, sometimes very liberal, sometimes very statist, sometimes even pro-Frexit as during the 2017 presidential election and which could potentially worry the markets.

For the moment, operators don't seem too concerned about this new political and ideological situation, with the potentially negative consequences it could have on stability within the Eurozone, but everything can change very quickly. The same is true on the geopolitical front, where Russia's recent incursions into NATO skies (Romania, Poland, Denmark, Belgium, etc.) raise questions about the true intentions of the Kremlin's master. Is this a simple test of European and NATO reaction capabilities? Or, is it a prelude to larger incursions, in the Baltic countries for example, which, aware of the threat, are preparing as best they can? Not to mention China, whose latest military parade on September 3rd in Beijing, attended by Xi Jinping, Vladimir Putin, and Kim Jong-un, along with 26 other heads of state, showcased new hypersonic missiles, stealth drones, quadruped robots, and J-20 fighter jets. Xi's speech focused heavily on the rebirth of the Chinese nation and global symbolism focused primarily on a demonstration of military power, particularly against Taiwan and the United States.

Reuters - https://www.heute.at/i/putin-schliesst-in-china-neuen-mega-deal-ab-120128358/doc-1j45f6sgi4

Here too, the market doesn't seem to be looking too closely in this direction at the moment, but we continue to monitor this risk, relieved to see the United States rapidly repatriating semiconductor production capacity to its soil.

lVojska Srbije - https://commons.wikimedia.org/wiki/File:CH-95.jpg

In this context, diversification, the quality of the managers we select, and vigilance therefore continue to be the three pillars of our action in the coming months.

Christophe Carrafang

Macro-economy

Price Index: Slight rise in Inflation

- **In the US, the inflation rate rose to +2.9% from +2.3% in April, as did the core indicator, which rose from +2.8% to +3.1%. These levels remain reasonable and within the Federal Reserve's targets.**
- **In the Eurozone, inflation is relatively stable, although it rose from +1.9% in May to +2.2% in September. Significant differences remain between Eurozone countries: +1.2% in France, +2.4% in Germany, +2.7% in Spain, and +1.6% in Italy.**
- **China is still experiencing deflation at -0.4%, and the real estate market is still weighing on the index.**

Job Market: Marked deterioration in the US

- **In the US, the job market is losing momentum (economic slowdown, adoption of artificial intelligence). Surprise revisions to the figures from the beginning of the year attest to a slowdown that occurred even earlier in the year, with almost no job creation since May.**
- **The unemployment rate in the Eurozone remains very low at +6.3%, according to the latest figures at the end of June.**
- **In the United Kingdom, the unemployment rate is gradually rising from +3.9% two years ago to +4.7% in September.**

Manufacturing activity: Same thing month after month.

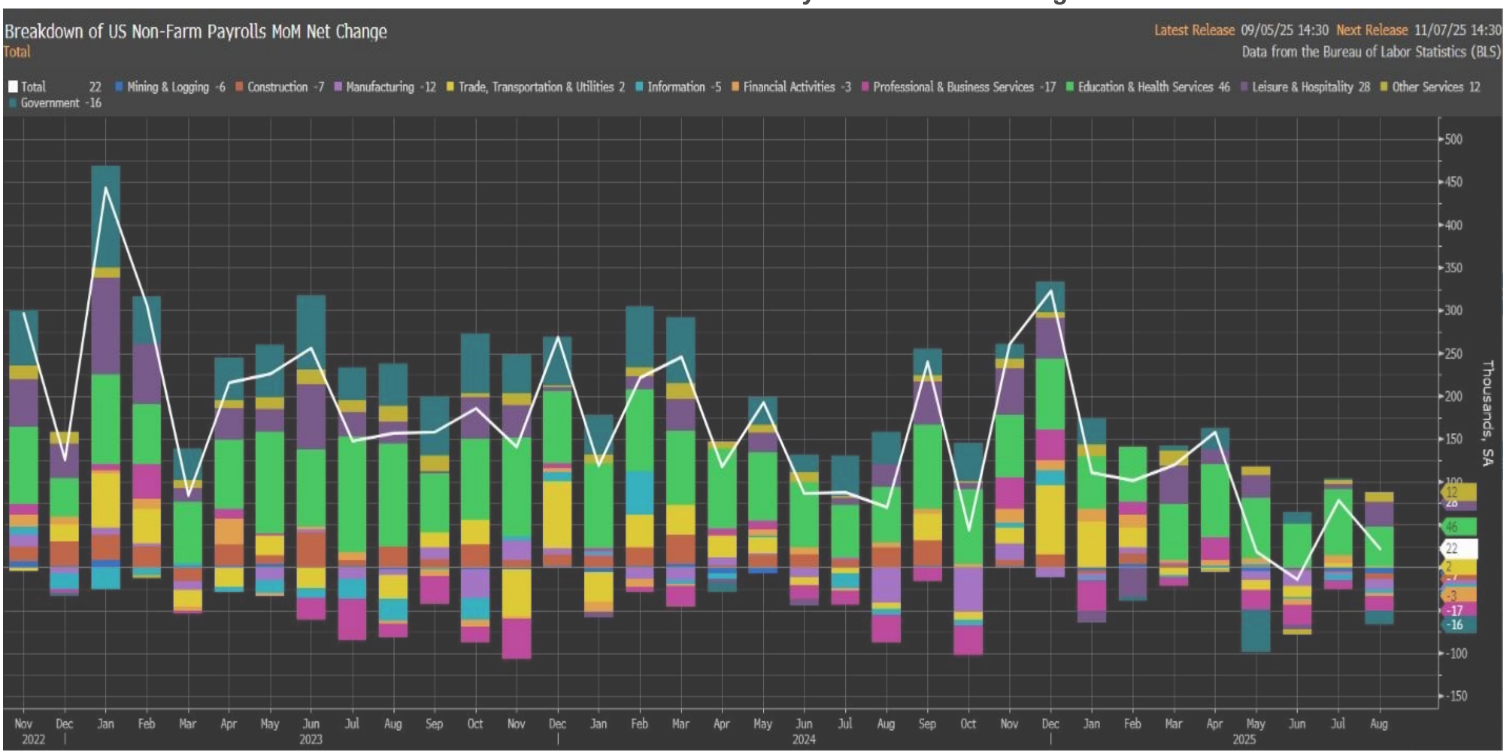
- **In the Eurozone, the improvement in August has not been confirmed; there is no real trend.**
- **In China, the last three months have been rather positive, but just above contraction levels.**
- **In the United States, we have seen no improvement in activity in recent months; the indicator remains in the contraction zone; 49.1 in September.**

Services Activity: Improving, but not everywhere

- **In Asia, the ISM services index is at growth levels: 53.3 in Japan, 52.9 in China, and even 60.9 in India.**
- **In the Eurozone, there is improvement: 51.3, tempered by France, which posted a disappointing 48.5, while other countries have much better indicators between 51 and 54.**
- **The situation in the USA is hardly rosy, with the index down 2 points in September to 50, and new orders and employment remain largely in the red. .**

Damien Liegeois

Breakdown of US Non-Farms Payrolls MoM Net Change



The Big Picture

AI, a race for energy independence

The artificial intelligence (AI) revolution is not only driven by algorithms or digital infrastructure: it is inseparable from the energy resources that power data centers and the strategic raw materials required for new technologies. In this context, the rivalry between the United States and China takes on an energy and mineral dimension. Both powers see AI as a lever of economic and military power, but also as an accelerator of dependencies in terms of energy and critical minerals.

The United States, aware of the risk of becoming dependent on Chinese supply chains, particularly for lithium, rare earths, and uranium, has adopted a proactive investment and relocation strategy. Washington is encouraging public and private capital to turn to strategic North American companies, such as Energy Fuels, which specialize in the production of uranium and rare earths, or Lithium Americas, a major player in lithium extraction. These investments aim to secure the supply of resources essential to energy transition and the development of energy-efficient and sustainable digital infrastructures.

But the American strategy doesn't stop at raw materials. Semiconductors, the technological heart of AI, constitute another key component. In this area, the United States has increased its support for companies like Intel, in order to relocate production and reduce dependence on Asia, particularly Taiwan and South Korea. By investing in Intel, Washington seeks to better control the digital value chain, from mining resources to processors, thus guaranteeing the country's technological sovereignty.

China, for its part, maintains a considerable lead in mastering the value chains related to strategic metals. It controls a dominant share of global rare earth production and has invested heavily in mining projects in Africa and Latin America. Beijing is thus combining its industrial power with an energy strategy that allows it to establish its dominance over future technologies, including AI. Chinese energy independence is therefore based less on reducing dependence than on a logic of global hegemony: controlling resources to control technological flows.

The "AI race" is therefore inseparable from a "race for energy independence." Whereas the United States prioritizes national security through investment in strategic listed companies and strengthening its industrial base (mining, semiconductors, data centers), China is banking on integrated, end-to-end dominance. This confrontation goes beyond the purely technological framework to become a structural competition over access to and control of resources. AI thus appears as a mirror of geopolitical power relations, where energy, minerals, and electronic chips are the true nerve centers of the 21st-century digital war.

Damien Beasse

Special Topic

Artificial Intelligence and the Labor Market

Any adaptation to a new technology intended to improve productivity brings with it the debate about human replacement; this was already the case during the agrarian revolution! More recently, the adoption of the internet, the robotization of industry, the smartphone, and post-COVID digitalization have profoundly changed the labor market. However, despite these incessant technological advances, the unemployment rate is quite low, for two reasons: firstly, demographic, based on the structural decline in new entrants to the labor market; secondly, microeconomic, which lies in the fact that these advances bring with them the creation of new roles and new professions.

With the emergence of artificial intelligence (AI), this debate is back in full swing. This technology makes it possible to process and analyze a huge amount of data faster and at a lower cost than humans can. It is clear that certain professions are in danger.

Increased productivity and the tasks performed by AI are creating redundancies, not only in low-skilled positions with routine tasks, but also in certain value-added functions: administrative, legal, translation, artistic creation, computer coding, etc. The demographic pressures that are causing a certain labor shortage will persist, but the question of higher unemployment in certain sectors clearly arises. Moreover, we noted in the second quarter results of this year that a good number of American technology companies, which are benefiting from very favorable momentum, with solid results and a sustained investment cycle, are reducing their number of employees due to the massive adoption of AI. Between Microsoft, Meta, Salesforce, Intel, Oracle, Duolingo, and Amazon, nearly 30,000 jobs were eliminated in a single quarter.

With the rapid adaptation of AI in all sectors of the economy, this trend is expected to intensify, paradoxically risking weighing on the very activity of these companies, which risk impoverishing their consumers and ultimately undermining the profitability of their heavy investments. In the medium term, however, as always with the adaptation of new technology, new professions are expected to emerge and counterbalance this trend.

Over time, beyond the productivity benefits achieved, it would be wise for this technology not to simply replace humans or foster their intellectual laziness, but to be used to work better and faster and free up time for more rewarding tasks. Indeed, replacing human reflection and creativity with a standardization of thinking and operating methods would be detrimental to what generally constitutes the strength of success: the use of the brain, inventiveness, and human genius.

Damien Liegeois