

# MONTHLY REVIEW

## MACRO

September came down to one question: how far will inflation push central bankers? The root cause lies in the Middle East. The war between the United States, Israel and Iran, which began in February, is still disrupting the Strait of Hormuz, and energy remains very expensive.

Central banks have turned more hawkish. The Federal Reserve raised rates for the first time in more than three years, and most of its members expect another hike before year-end. The ECB and the Bank of Japan have also tightened. The Bank of England chose to wait, though three of its members already wanted to move. The Swiss National Bank is the exception: it kept its rate at zero, despite rising inflation and an economy stronger than expected.

September PMIs (surveys of purchasing managers) came in very strong. In the US, the composite index hit 58.4, its highest level in more than five years, with brisk hiring and soaring input costs. In the eurozone, it climbed to 53.1, a three-year high. Good news for growth, less so for those hoping for a pause from central banks.

Another worry for markets: the debt financing artificial intelligence. Big tech groups, including the Magnificent Seven, are pouring hundreds of billions of dollars into data centers, borrowing more and more to do so. Rising rates make this model more fragile. Oracle, the weakest of the big cloud players, has become the symbol of the problem. The group invoked force majeure with the developer of a huge data center in New Mexico, which would let it delay its payments. It says the project remains on schedule, but its shares fell, its bonds lost value and the cost of insuring against its default rose. Investors are becoming more demanding toward aggressive AI-related issuers.

## OUTLOOK

We are maintaining our equity exposure, backed by an AI investment cycle whose scale keeps surprising us. That support is no longer unconditional, however: markets are becoming more sensitive to rate and inflation risks.

**Equities.** We favor high-quality AI-linked growth stocks, as well as banks and industrials. We remain overweight US and emerging-market equities.

**Bonds.** We keep our long-held preference for high yield (HY), held for several semesters, especially in Europe.

**Risks.** The main risk is the path of interest rates. Stickier inflation than expected would trigger further rate hikes and weigh on both equity valuation multiples and credit, further weakening the most expensive segments of the market. We are closely monitoring inflation releases and upcoming central bank meetings.

## EQUITY MARKETS

Equity markets suffered from rising rates, but without panic. Globally, the MSCI World ended the month down 1.12%.

In the US, the broad index finished almost where it started the month (-0.45%), but this calm hides sharp divergences. The Nasdaq 100 rose solidly, lifted by AI enthusiasm, while the Dow Jones fell and Russell 2000 small caps (-5.40%) were hit hardest, weakened by the cost of credit. By sector, technology dominated by a wide margin, well ahead of communication services and healthcare, which were roughly flat. At the bottom: consumer discretionary, materials, real estate and financials each lost close to 7% over the month.

Europe fell overall (-2.49%), with France and Germany the hardest hit, while London and Milan limited the damage. Defensive stocks were not enough to protect the SMI, because of weakness in Novartis and Nestlé. It underperformed both the SPI and the Euro Stoxx 50. By sector, oil and gas led, ahead of technology; these were the only two sectors to rise. Travel and leisure slipped slightly, while autos, real estate and financial services brought up the rear.

In Asia, China, India and Hong Kong declined, while Japan fell more modestly. South Korea was the exception, rising on the strength of Samsung and SK Hynix.

September performance: CAC 40 -4.44% (YTD -2.27%), SMI -3.19% (YTD 4.24%), Stoxx 600 -2.49% (YTD 7.21%), Nasdaq 1.86% (YTD 15.57%), S&P 500 -0.45% (YTD 11.77%), Hang Seng -3.73% (YTD -3.97%), Topix -1.15% (YTD 20.52%).



## FOREIGN EXCHANGE MARKET

The dollar was the currency of the month, supported by higher US rates. The dollar index gained 2.18% in September. The euro fell against the greenback despite the ECB's rate hike, weighed down by expensive energy and worries about France. The yen recovered slightly against the dollar, mainly early in the month, helped by the Bank of Japan's hike and fears of intervention by the authorities. The outlook is idiosyncratic, as it is for many financial assets. Persistent inflation, fueled by higher oil, would push the Fed to hike, which would support the dollar. In that scenario, the 1.11-1.12 level for EUR/USD is within reach.



Against the Swiss franc, the euro gained slightly. The franc remains a safe haven, but it weakened: the Swiss National Bank (SNB) did not raise rates, unlike other central banks, and reminded markets that it can intervene in the currency market if needed. In addition, part of the carry trade, previously funded in yen against the dollar, has shifted to funding in Swiss francs, whose rates remain very low compared with other currencies. On EUR/CHF, the current scenario reinforces the franc carry trade: investors borrow in CHF, sell it and invest the proceeds in higher-yielding currencies. In the short term, this should continue and push the pair toward 0.955, but an unexpected unwind of these positions always remains possible. The franc's long-term trend is unchanged: Switzerland has one of the strongest budget account positions among sovereigns.



## INTEREST RATES AND BOND MARKET

Central bank decisions set the tone. The Fed raised its policy rate to 3.75-4.00%, the ECB its deposit rate to 2.50% and the Bank of Japan its rate to 1.25%. The Bank of England held at 3.75%, and the Swiss National Bank at 0%.

Yields climbed accordingly. In the US, the 10-year yield reached its highest level in nearly twenty years, and the 30-year yield a peak not seen since 2004. Germany posted its highest rate in more than fifteen years. Three concerns are combining: sticky inflation, central banks that are not done hiking, and heavily indebted governments. France is the most exposed, with its yield spread over Germany widening sharply.

All major bond categories fell in September. Long-dated US Treasuries were hit hardest: -5.66% on the month and -8.01% since January. US investment-grade (IG) corporate bonds lost 3.37%, and the broad US index 2.62%. US high yield (HY) held up better at -2.62%, and is flat since January (-0.34%). In Europe, corporate bonds fell about 1.71% on the month, in both IG and HY. Over the year, European HY is still slightly negative (-0.19%), while IG bonds are down 1.33%.



# COMMODITIES

## GOLD

Gold failed to live up to its safe-haven reputation: its price fell sharply, hitting its lowest level since early August. It was hurt by the stronger dollar, rising yields and bets on further Fed hikes.

Tensions in the Middle East could have supported it. Instead, they mostly fueled fears of lasting inflation, and therefore tighter monetary policy, which weighed on the yellow metal. The drop is all the more notable because gold had hit record highs earlier in the year. This month, rates and the dollar drove its direction, not fear.

The 4'000-4'200 levels are again an attractive buying zone after the sharp rise in US rates seen over the past five weeks. The long-term trend is unchanged, and the uptrend should continue.



## OIL

Oil rebounded sharply. Brent, the European benchmark, climbed well above USD 100 a barrel. It all hinges on the Strait of Hormuz: as long as tanker traffic remains obstructed, prices stay under pressure.

Several events swung the market. Drone attacks on Saudi facilities raised fears of shortages, then the restart of a major Saudi pipeline calmed nerves. Every statement on negotiations with Iran triggered abrupt moves: hopes of a deal push prices down, a refusal pushes them back up.

This rise feeds inflation and reinforces central banks' firmness. Global inventories have been falling since the start of the year, leaving little cushion in case of a new disruption. Oil is the common thread of the month.



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