

## Data-driven

- Last week was mixed for global markets, with more uncertainty about the future trajectory of US Fed rates
- Most asset classes are priced for a benign scenario of muted growth and muted inflation
- Macro data and the upcoming earnings season will probably matter more than usual



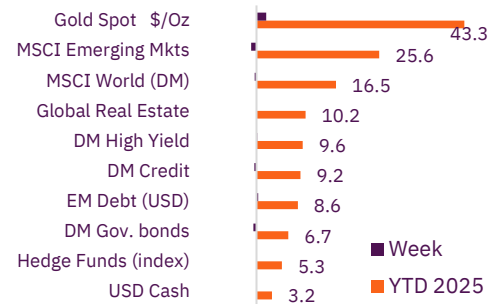
Markets were mixed last week as the consensus for a dovish Fed was questioned. Economic data continued to be relatively strong. US real GDP growth in Q2 was revised materially higher, to a very robust +3.8% (sequential, annualized), with strong services consumption and solid investment spending, especially AI driven.

The only reason for the Fed to cut rates, apart from political pressure, is thus the weak level of jobs creations. This justifies normalizing the policy rates from their currently restrictive levels, but only if it lasts, and if other variables in the equation, especially inflation, do not pick up. Statements from several Fed officials last week were quite divergent on the path ahead. US Treasury yields logically rose at the shorter end, taking a modest toll on the fixed income asset class. Stocks followed in developed markets, and amplified in emerging markets, due to India seeing more pressure from the US administration: both the restrictions on H1-B visas and additional tariffs on pharmaceutical products are headwinds for its economy. Finally, the dollar was +0.5% stronger against trade-weighted counterparts, while oil prices gained almost 5% on geopolitical concerns.

The week starts with signals that OPEC+ could increase production, and will continue with data: global PMIs, and the US monthly job report on Friday. The median forecast for the latter, at 50k job creations, looks a bit low. Having strong consumption and investments but low hiring is unusual. Is AI already boosting productivity? Or are companies simply in “wait and see” mode? We may also see a partial US government shutdown starting this week in the absence of a short-term funding bill, something that usually does not upset markets too much. It could however disrupt the issuance of official data that is more needed than ever.

Our positioning is unchanged and continues to work well.  
 Have a great week.

**Asset Classes USD % total. Return, Week and YTD 2025**



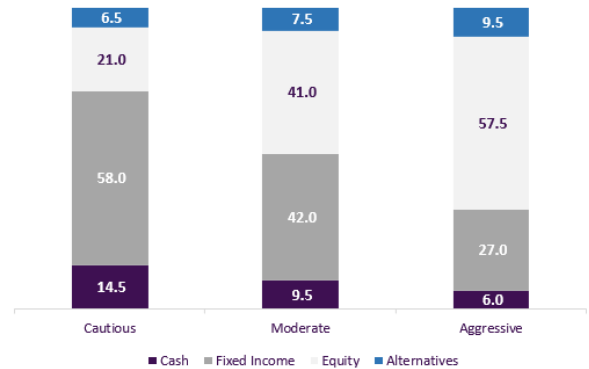
## Cross-asset Update

In the past week students of the macroeconomic cycle in the United States had all the good data they could get, with 2Q GDP revised significantly higher, personal income and spending for August quite robust, and still manageable inflationary pressures. Soft data was only a whiff less benign, as business confidence pointed to an ongoing slowdown, while consumer confidence still did sit at multiyear lows. So, those very same students would conclude that the overall picture points to a so-called Goldilocks backdrop, marked by positive but decelerating growth and moderate price pressures, ideal for the performance of the typical 60-40 equity-bond portfolio. Yet, the rally in equities stalled (-0.3% for the week), while yields drifted a tad higher at the longer end of the curve. Fed chair Powell spoiled the party confirming in a speech that aggressive cuts are far from assured, as risks to the labour market must be balanced with rising inflationary risks. And Fed officials provided little guidance about the future direction of policy, split in opposite camps on whether to act promptly to avoid falling behind the curve, or rather cautioning about further easing on concerns about price pressures. So, what clearly emerged is that liquidity is at least as relevant as the real economy. Equities can become more and more expensive only if there is a clear path of multiple rate cuts ahead, while a growing economy remains a necessary, though not sufficient condition for the bull market.

And therein lies the rub. For 2026 the FOMC sees one cut only, a far cry from what the market was expecting before the release of the so-called dot plot, that projects the expected path of rates. The economy may well recover and avoid a recession, yet at some point multiples will have to stop expanding in the absence of additional liquidity. So, for next year we have two opposite scenarios that would mark the end of Goldilocks. The base case is the official one: one cut and the Fed is done to avoid stoking inflationary pressures. Goldilocks would cease to exist as growth or inflation would be shifting from muted to stronger. Most likely ex-US markets would be outperforming, led by the emerging countries. We would further conjecture that it might not be an AI rally, rather a value-led rally. The other scenario would see an unexpected harsh slowdown, with the Fed behind the curve and cutting rates repeatedly. The US would be outperforming, but markets would be falling until liquidity restores favourable financial conditions. Goldilocks would cease to exist as growth would be shifting from muted to negative.

We stick with the base-case scenario of a mid-cycle slowdown to be followed by a recovery, though little visibility lies ahead. The positive effects of the One Big Beautiful Bill kicking in from early next year alongside Fed cuts should be enough to avert the worst outcomes. Also, we should not underestimate the interventionism of a sitting administration in the year of mid-term elections.

Tactical Asset Allocation: Simplified Positioning



## TAA – Relative Positioning – Moderate Profile

UW/N/OW: Underweight/Neutral/Overweight

|             | UW | N | OW |
|-------------|----|---|----|
| Cash        |    |   | >> |
| DM Gov.     |    | = |    |
| DM Credit   |    | = |    |
| DM H. Yield |    | = |    |
| EM Debt     |    | = |    |
| DM Equity   | <  |   |    |
| EM Equity   |    | = |    |
| Gold        |    |   | >  |
| Hedge Funds | << |   |    |
| Real Estate |    | = |    |

## Fixed Income Update

We had mix of strong data sets from the US combined with hawkish Fed speak which wasn't great for bonds. FOMC members remain divided. Chair Powell restated points from last FOMC press conference in his prepared remarks, addressing concerns about a less dynamic labour market and its potential effects on the employment mandate while sounding a cautious tone on inflation. Chicago Fed President Goolsbee indicated support for additional easing but advised a patient approach to rate reductions, expressing preference against a 50bps cut. Goolsbee described current policy as mildly restrictive, estimating neutrality at 100-125 basis points lower than the present rate. FOMC member Miran expressed a dovish view with terminal rates of 2.5% vs Fed expectations of 3%. He said that the policy remains restrictive and that the Fed needs to cut rates fast in order to avoid undue pain in the labour market. Treasury Secretary Scott Bessent also chimed in expressing disappointment that Jerome Powell hasn't clearly signalled rate cuts. He said borrowing costs should fall by 100 to 150 bps before year-end. Market is pricing in 41bps of cuts this year.

The US Treasury yield curve flattened. If a government shutdown occurs this week, the September employment report will likely be delayed, as in 2013, with possible effects on the October report if the shutdown lasts longer. Treasury operations, auctions, and payments will continue uninterrupted. A shutdown is unrelated to the debt ceiling and does not mean a sovereign default. June TIC data shows increased end-user demand across all tenors, especially foreign interest in intermediate auctions.

IG corporate spreads traded in a very tight range of 2bps. September has seen \$198bn which is the fifth largest issuance month on record according to JPM. Oracle issued a multi-tranche \$18bn bonds. Dealer inventories have risen off a record net short position, but they remain low. Long-end issuance has ticked up to almost 2x monthly average of Jan to Aug. IG fund inflows approach \$1.4bn per day last week.

Today's primary market pipeline is active with several announcements. Egypt has issued a mandate for a dual-tranche sukuk offering in 3-year and 7-year, expected to be priced this week. Kuwait also returned to the international debt markets for the first time since 2017 with multi-tranche bonds across 3-, 5-, and 10-year tenors. Currently, Government of Kuwait has only 1 bond in the market maturing in March 2027 and trading around \$99. From Turkey, Vakifbank, the country's second-largest bank and the largest listed bank, is in the market today pricing a perpetual NC5.25-year instrument with IPTs in the 8.50%-8.625% range.

## FIXED INCOME KEY CONVICTIONS (2024)

### DEVELOPED MARKETS

Overall overweight DM FI

OW Government Bonds

Neutral corporate (IG & HY)

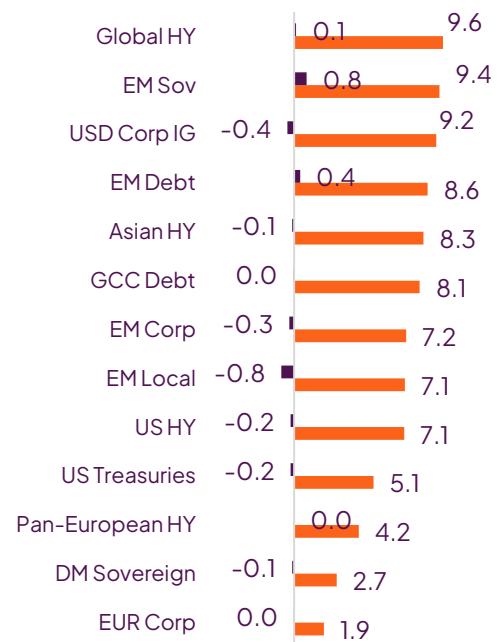
### EMERGING MARKETS

Neutral EM Debt

Favor quality and selectivity

Including in GCC

## Fixed Income Sub Asset Class Returns (US\$ TR, YTD, Last Week)



## Equity Update

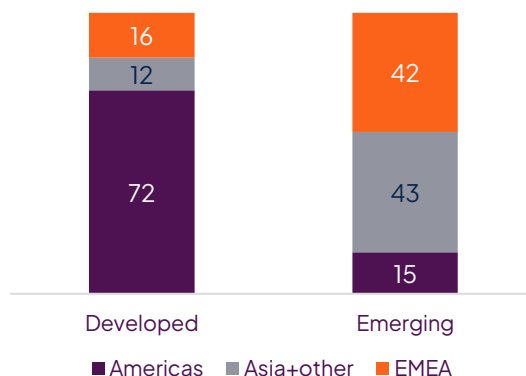
Global equities lost ground last week as fresh records gave way to profit-taking and political shocks. The MSCI ACWI fell 0.5%, with developed markets down 0.4% and emerging markets off 1.1%. A strong start faded into choppy trade as tariff headlines and the threat of a government shutdown in Washington unsettled sentiment and shifted leadership across sectors. In the United States, the S&P 500 slipped 0.3% after briefly touching new highs. Momentum early in the week came from resilient macro data and strength in semiconductors. Micron rose after upbeat guidance, Nvidia climbed on news of a one hundred-billion-dollar data-center partnership with OpenAI, and Intel was linked to discussions with Apple as part of its turnaround efforts. These gains were offset by weakness across the broader technology complex, with the Mag7 retreating after months of powering the index higher. The administration's announcement of sweeping new tariffs, including 100% duties on branded pharmaceuticals, weighed heavily on healthcare and biotech shares and brought supply chains back into focus. Corporate headlines added further color, with Electronic Arts reported to be nearing a sale and the TikTok saga continuing under a deal framework that would still leave ByteDance retaining a large share of profits from its US unit.

In Europe, equities managed a marginal advance with the MSCI Europe up 0.1%. Autos provided support after the United States moved to cut tariffs on European cars, marking a rare moment of trade relief. Energy and mining shares also advanced, lifted by firmer commodity prices and signs of steadier demand from China. The gains were partly offset by pressure on pharmaceuticals following the latest US tariff threats, with weakness notable in Switzerland and the United Kingdom. Broader benchmarks were supported by survey data showing the euro area private sector returning to modest expansion, pointing to firmer footing into the end of the year.

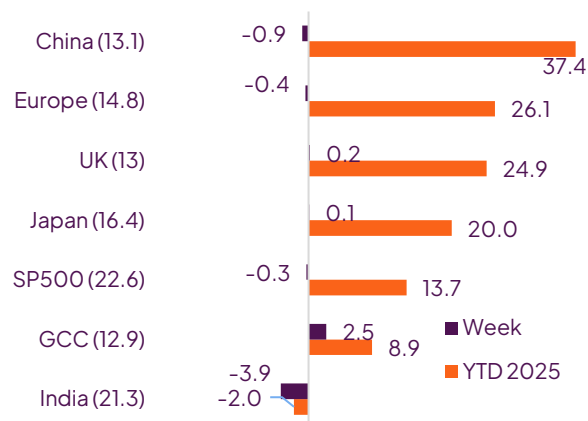
Asia showed a more uneven performance. The MSCI China Index slipped 0.8% as profit-taking hit technology and consumer names. Xiaomi retreated after a strong run on its handset launch and healthcare names fell in step with global peers. Alibaba surged nearly 8% after pledging to lift its AI spending target beyond fifty billion dollars, unveiling its Qwen3-Max model and announcing a new partnership with Nvidia. The move carried its American depositary receipts to a 27% gain for September, making it one of the month's strongest global performers. Gaming names rose as Tencent's new title Delta Force topped app-store charts, and chipmakers extended gains on expectations of further state support. State-linked funds remained prominent, with the national team sitting on tens of billions of dollars in paper gains from ETF purchases that have underpinned local markets. Japan's TOPIX outperformed with a 1.3% rise, supported by autos and exporters as the yen steadied.

Overall and across regions, equities ended the week shaped less by macro trends than by political headlines and corporate catalysts, leaving a picture of strength concentrated in a few standout names against a more hesitant global backdrop.

## Equity Recommended Regional Positioning

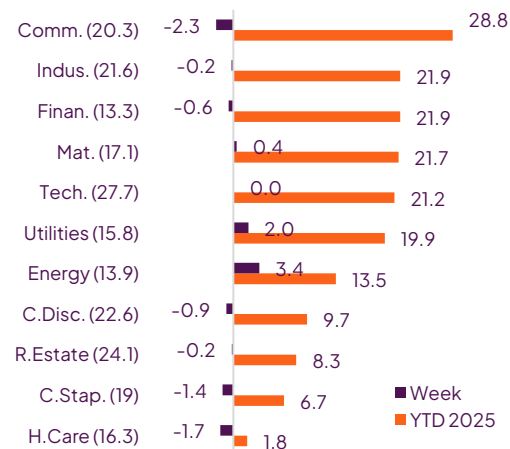


## Major Indices Performance (TR, US\$), P/E in brackets



Source: Bloomberg consensus. MSCI Indices unless specified.

## Global Sector Performance (TR, US\$), P/E in brackets



Source: Bloomberg consensus. MSCI All Country World sectors US\$.

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