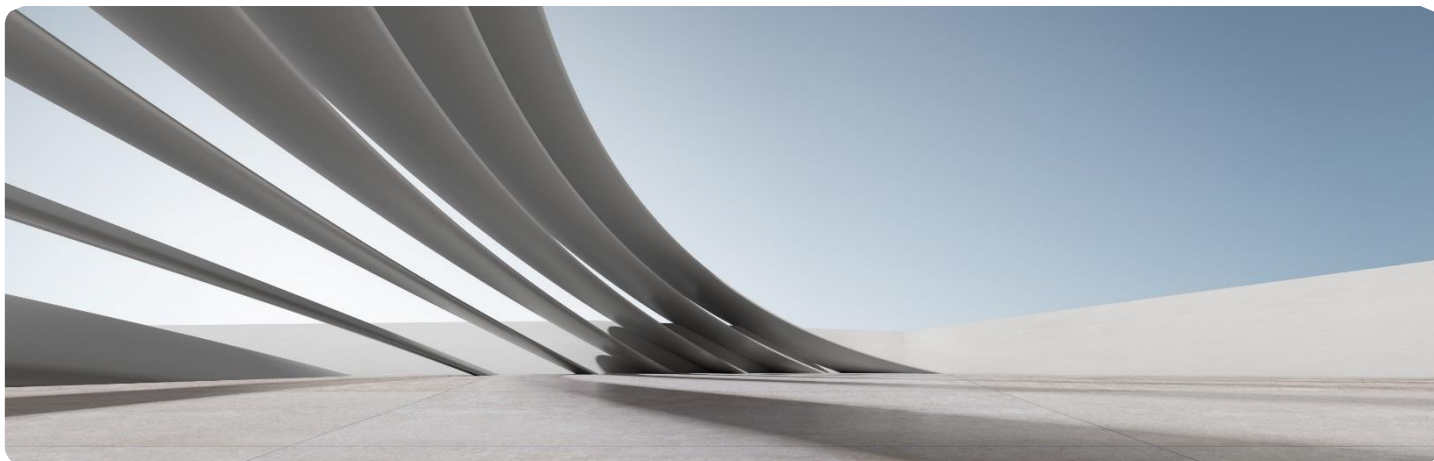


September surprises

- Last week confirmed a concerning US labor market slowdown that boosted expectations for rate cuts
- Defensive assets benefitted, but stocks did not fall, as global PMIs showed surprising resilience
- Our monthly committee decided to reduce exposure to both fixed income and equity



When all eyes are on the US Fed's next move, bad news for the economy is typically good news for markets, indicating more support to come. There is however a balance to find: data should not be too bad.

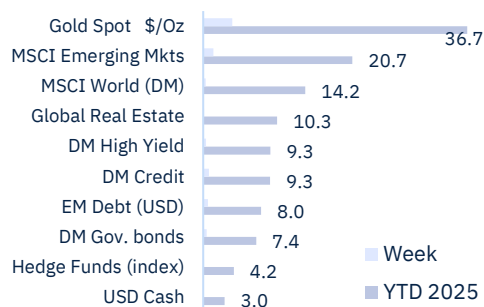
To some extent, last week was all about striking this balance. On the one hand, all US labour market related data unambiguously signalled softness: less job openings and more layoffs from the JOLTS report, rising jobless claims and most importantly, a very disappointing number of job creations from the August NFP report: 22,000 is less than a third of the median forecast. This had a direct impact on expectations for the Fed – a cut in September is now cemented – and on US Treasury yields, down across the curve.

On the other hand, leading indicators were unanimously resilient, if not outright positive, across regions, including in the US on services. While job numbers start to show a recession risk, these surveys are pointing in the opposite direction, which may explain the resilience of risk assets.

Bottom-line, macro visibility is as low as ever. Since at the same time both stocks and bonds are at or above our year-end fair-values, our September investment committee decided to reduce our exposure to both. We are now neutral (from previously overweight) on fixed income, across all segments. On stocks, we are now underweight in developed markets and just neutral, from previously overweight, in emerging ones. We stay overweight in cash and gold. Our three profiles are all up by double digits in dollars so far in 2025.

The week starts with political uncertainty in Japan and in France, which is also to be taken into consideration at a time when by contrast China and the BRICS are multiplying demonstrations of strength. We will look at the US CPI on Thursday and follow the ECB policy meeting, which is expected to keep rates unchanged. Have a great week.

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



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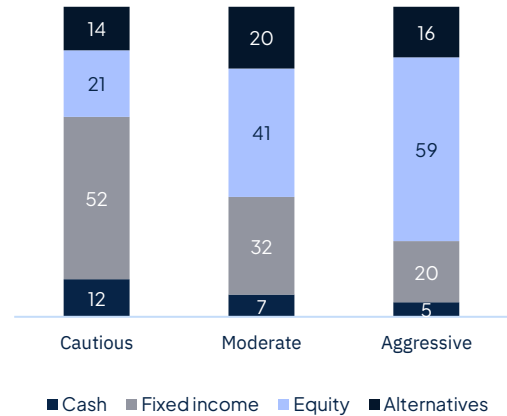
Cross-asset Update

A chart has been doing the rounds recently, showing the value of gold's holdings with central bank reserve managers surpassing that of US Treasuries as percentage of total assets held. This happened for the first time in 30 years, so we can say it is quite something. And it is, as the swapping of one asset for the other tells us reserve managers believe in the future gold is going to appreciate versus Treasuries. In the 80s and 90s they were doing the exact opposite, selling gold holdings aggressively to buy Treasuries, sending the message that the true reserve asset was dollar-centric, and it was the US Treasury. Nowadays on the other hand there is talk of gold being the new reserve asset, a 'neutral reserve asset'. This simply means that there is general agreement on gold being accepted as a means of exchange in international trade, and it is neutral in the sense that it is linked to no notion of sovereignty, being an asset that cannot be printed.

Following the non-convertibility of dollar into gold declared by President Nixon in 1971, and then the so-called petrodollar agreement reached in 1974 whereby Saudi Arabia agreed to export oil in dollars, there was the need to consolidate the use of the US dollar in global trade. Gold was a competitor, and quoting traded goods in gold did not help the reinvestment of international trading proceeds in US markets. The United States managed to enforce the use of the US dollar and affirm the US Treasury as the global reserve asset. In the process central bank reserve managers sold gold and bought Treasuries. Now gold is coming back with a vengeance, and the reversal of that process is signalling the weakening of the US dollar-based system. How far that will proceed we do not know, yet it is plausible to think that it will continue as long as debt levels in the Western countries, and primarily in the United States, are allowed to grow unchecked. Reserve managers must think that debt levels will increase, that hoarding gold is the right thing to do, and that Treasuries will be losing value versus gold as the Treasury department suppresses yields to contain the cost of servicing debt.

This is a plausible scenario and the sovereign tremors seen both in the UK and France early last week, that sparked the rise in global yields on concerns about debt sustainability in those countries, only reinforces that scenario. Why invest in Treasuries if yields are suppressed and depressed real yields are sparking inflation, when on the other hand one can buy gold and cryptocurrencies? The investment preferences of central bank reserve managers are not revealing a very palatable scenario in the end. It is palatable for gold holders, or commodity investors in general, though not for traditional asset classes, equities and bonds, exposed to the risks of higher inflation. Investors are advised to hold a steady allocation to gold in their portfolios. Now for the first time in 30 years they have got the signal that one more upleg is due for the yellow metal.

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

While the US job market shows signs of stagnation, it has yet to experience a significant downturn. The most recent employment report reveals that the three-month average increase in jobs has slowed to 29,000, a notable decline from 231,000 at the beginning of the year, with June registering a contraction of 13,000 positions. Job creation remains concentrated in the education and health services sectors, whereas more cyclical industries have seen reductions.

Labour market slack is accumulating, driven in part by policy uncertainty that has resulted in a hiring freeze rather than widespread layoffs. Consumer sentiment reflects growing difficulty in securing employment, and businesses are reporting weaker sales, which continues to temper both capital expenditures and hiring plans. The prevailing trend is characterised by limited hiring and minimal firing, signifying a clear loss of momentum. With the labour market softening, upward pressure on services inflation is likely to remain contained.

Bond markets loved the bad news and the yield curve moved down. The 10-year yield went below 4.1% while the markets are now pricing in a 70bps rate cut by the end of this year or roughly three cuts. The bullish move in the treasuries reverberated across the DM government bond universe with UK enjoying a respite from the increasing yields. The UK 30 year dropped below 5.5%. The UK Debt Management Office has moved to issuing short duration bonds to meet the country's funding needs. In the next 3 months we do not have any long duration bonds coming up for auction. Even though the longer end yields are a cause of concern, we don't think it will alter the overall funding costs for the UK anytime soon.

In our recently concluded TAAC meeting, we booked profit on our Overweight DM govies position and went neutral. Risks to August CPI remain tilted to the upside potentially refocusing the market on the inflation story. While the front-end yields continue to move down, there are risks that the long-end yields could be stickier here onwards unless we see a further weak print from inflation. We are now neutral across all credit segments since we perceive the current spreads to be too tight. September typically has been a high bond issuance month and could see a slight widening in credit spreads.

PIF, the sovereign wealth fund of the Kingdom of Saudi Arabia, is launching a new 10-year senior unsecured bond today. The IPTs were set at 120 bps above Treasury, equivalent to a yield of about 5.3%. Omniyat, a UAE real estate firm, focused on luxury segment also has issued a mandate announcement for long 3-year sukuk. Its existing 2028 sukuk is trading around 6.95% at the time of writing. From Qatar, Doha bank announced a mandate for 5-year senior unsecured bond. Both expected to be priced this week. Total GCC issuances amounted to \$ 87.9bn year to date, with KSA contributing by 56%.

Fixed Income Key Convictions

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)

Global HY	0.4	9.3
USD Corp IG	0.8	9.3
EM Sov	0.7	8.6
EM Debt	0.7	8.0
EM Local	0.2	7.5
GCC Debt	0.6	7.3
Asian HY	0.4	7.1
EM Corp	0.5	6.9
US HY	0.3	6.7
US Treasuries	0.8	5.3
Pan-European HY	-0.1	3.7
DM Sovereign	0.5	2.9
EUR Corp	0.2	2.0

Equity Update

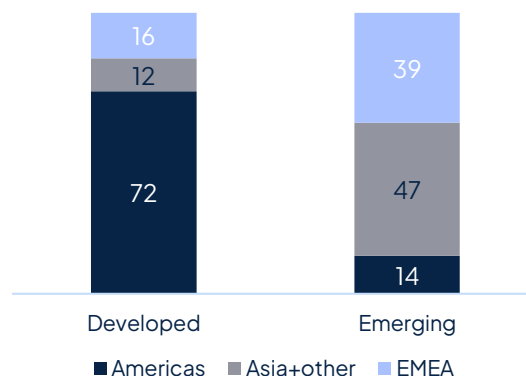
Global equities moved higher last week, with MSCI ACWI up 0.5%, developed markets gaining 0.4%, and emerging markets leading at 1.4%. The week began quietly as the US market paused for Labor Day, leaving the spotlight to offshore moves and policy headlines. As trading resumed, the S&P 500 set a new all-time high, powered by large cap technology and communication services. Alphabet jumped over 10% for the week after sidestepping the harshest antitrust remedies, and Apple climbed 3.3% as AI-driven product news lifted sentiment. The mood shifted midweek as technology and rate-sensitive sectors came under pressure, with Apple slipping after news of high-profile departures from its AI unit. Soft US labor data at the end of the week cemented expectations for a September Fed rate cut, which should be supportive for equities going forward.

In Europe, the MSCI Europe index ended the week flat. Early gains came from autos, banks, and industrials, but momentum faded after a hotter-than-expected eurozone inflation print recalibrated expectations around ECB policy. Real estate, utilities, and industrials lagged, and healthcare and retailers provided some support later in the week. Index reshuffles and corporate headlines, including Porsche AG's exit from the DAX, added to the rotation beneath the surface.

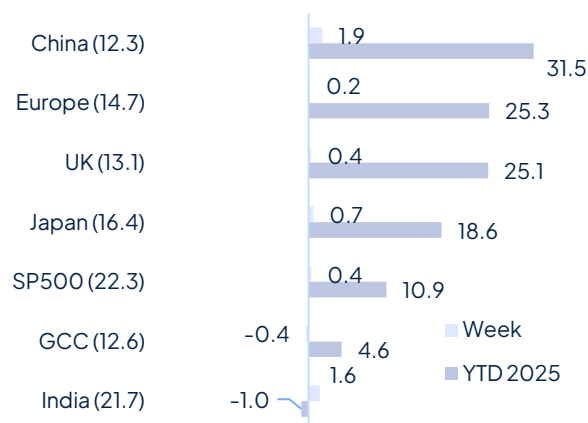
Within Asia, the MSCI China rallied 1.9% as Hong Kong tech and internet names led after Alibaba's jump on AI-driven revenue growth, though profit-taking set in later as regulatory intervention fears resurfaced and margin financing hovered near multi-year highs. The CSI 300 ended the week down 0.8%, with onshore indices posting their worst week in a month. TSMC finished the week up 2.5%, navigating headlines around export controls and supply chain friction. In Japan, the TOPIX rose 1.0%, supported by tariff relief for autos and optimism around AI demand, with Mazda and Nissan surging on news of a US-Japan tariff deal. Japanese wage data showed the strongest nominal gains in seven months, reinforcing expectations for further policy moves from the Bank of Japan.

Leadership continued to rotate within mega cap technology and quality growth, with Broadcom rallying sharply after announcing it will begin producing custom AI accelerator chips for OpenAI, a segment long dominated by Nvidia.

Equity Recommended Regional Positioning

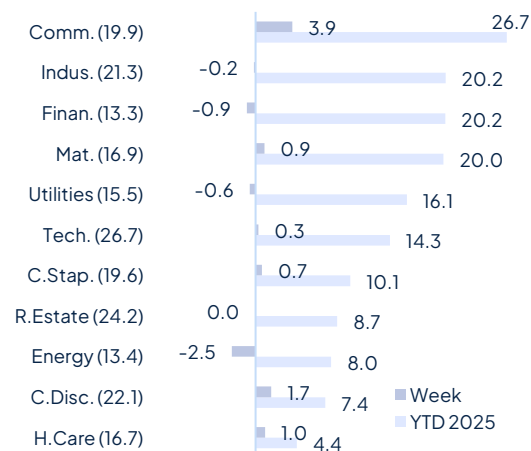


Major Indices Performance (TR, US\$), P/E in brackets



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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