

And finally, the Fed will cut rates

- Last week was positive across asset classes as we are one step closer to the Fed's first rate cut in a long time
- US inflation is not high enough to keep monetary policy restrictive while the labour market is unambiguously slowing
- Markets will focus on the Fed's guidance and projections, and implied expectations look already demanding

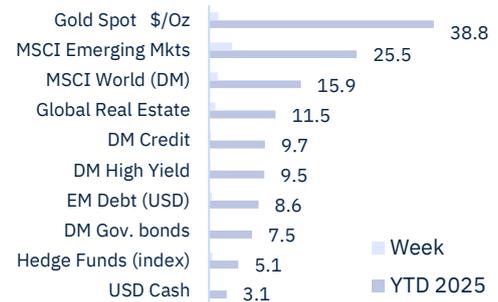


There was no shortage of depressing events last week, from Israeli bombs in Qatar to Russian drones in Poland, a political assassination in the US, and a downgrade of France's sovereign credit rating. For the investment world however, the perspective of an imminent rate cut from the Fed was a powerful antidepressant. As the stalling of US employment is now certain, confirmed by rising jobless claims, the only reason for the Fed not to act would have been a negative surprise on inflation. August factory gate prices (PPI) were actually a positive surprise, and consumer prices (CPI) were broadly in line with expectations. Monetary easing in America is undoubtedly about to start.

All asset classes delivered positive returns last week, with a weaker dollar, while the only sign of markets being concerned by geopolitical events was a 2% increase in oil prices. It's worth noting that stocks from emerging markets, especially China, continued to outperform their developed peers, and that gold printed a new all-time high. Elsewhere, the ECB didn't surprise anyone by keeping interest rates on hold. By contrast, Oracle stunned the world with spectacular AI infrastructure revenue projections that propelled the stock price by almost 40%.

The week ahead will obviously be all about the Fed, as meetings from the BoJ, BoE of Bank of Canada should be less impactful. We expect a 25 basis points cut, which will probably come short of the White House's recommendation. Still, with the quarterly update of their projections on growth, inflation, employment and their dot-plot, the central bank has a great opportunity to provide guidance and clarify how it weighs employment risk with inflation risk. As you know, our positioning has turned a bit more cautious recently: equities are not pricing in a slowdown risk while fixed income is not pricing in an inflation risk. Our three profiles are all delivering double digit returns so far in 2025 so it's not a bad time to protect a bit, wait, and see. Have a great week.

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



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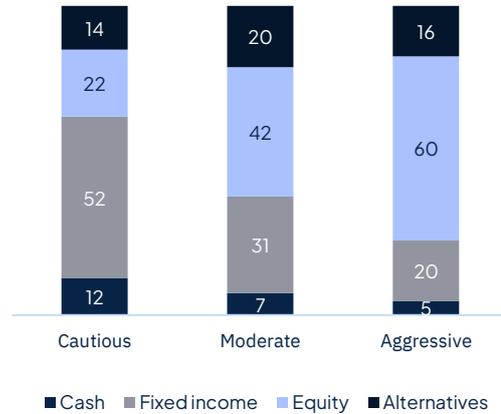
Cross-asset Update

The US economy has been slowing down, and markets have so far taken it in their stride. The divergence is growing larger, and investors may wonder for how long this can last. According to a Goldman Sachs gauge of the US business cycle, the economy peaked in April last year and ever since inflected lower. The point is whether the economy will continue to decelerate, proceeding to the verge of recession and delivering a growth scare, or will rather recover promptly. There is growing chances of the former happening. Consumer confidence has lingered close to historical lows, manufacturing has been in contraction for months, and payrolls have been revised heavily lower, so the direction of travel seems to be clear. Also, leading indicators of the labour market reinforce this view. According to the University of Michigan consumer sentiment survey employment change is going to be sharply negative in the next 12 months, and consumers historically have proven prescient about future labour market conditions. Some asset classes are discounting quite a slowdown phase, with longer-dated Treasury yields hovering close to the lows of the year, while transportation stocks sensitive to reflationary conditions, have underperformed the whole year. After the fact, it seems that the “too late” narrative upheld by President Trump has some substance to it. If we use as a gauge of tightness of financial conditions the difference between the Fed funds rates and core CPI, this gauge has been restrictive since July 2023.

Averaging out the performance of the S&P 500 around the date of the resumption of easing after a pause, one can see that following the first cut after the pause markets have stalled for a while. If history is any guide, investors should stay up in quality for the shorter term. The performance of cyclical stocks has been mixed of late, and chances are higher that defensives can start to outperform. Higher-quality bonds have already topped returns, a sign of reduced confidence in the durability of the current cycle. It is largely known that gold is a defensive asset, but this time it could eventually dip with the market in the case of a deeper pullback in risk assets, and that should be seen as a buying opportunity. At the same time, the US dollar could go through a bear market rally, after putting in the worst performance since the early 70s.

But what about key investment themes that we should all keep in mind once the dust settles? Historically Fed cuts have benefitted all EM asset. The stronger outlook driven by monetary easing is a net positive for EM equities, while falling dollar rates are a positive both for EM currencies and EM debt. This comes with a caveat, though. Should the Fed err on the side of caution and cut excessively, it could easily restart an inflationary cycle. Frictions created by tariffs and deportation policies lower the hurdle for inflation to be an issue again in the US economy. And we suspect that at some that can really be the case in 2026.

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

The focus this week was on the slowdown in the US economy, especially in the labor market. The August jobs report was weak, earlier payroll numbers were revised lower, and jobless claims climbed to the highest level in almost four years. These signals made it clear that growth is losing traction, and markets are now fully expecting the Fed to cut rates by 25bps in September. Treasury yields fell sharply, with the 10-year dropping below 4% for the first time since April, while the curve flattened as long-dated bonds led the rally. At the same time, worries about high debt in the UK and France added pressure on European bonds and pushed investors into gold, which reached record highs. Oil prices moved up and down, falling after OPEC+ agreed to raise supply but recovering later due to new geopolitical risks in the Middle East.

Credit markets stayed well supported, helped by the sharp move lower in yields and strong demand from investors. Investment grade and high yield spreads tightened, showing confidence that easier Fed policy will support funding conditions ahead. Emerging market companies took advantage of the favourable backdrop to issue bonds at the fastest pace in years, with order books often oversubscribed. The demand for new deals reflected the search for yield in a world where rates are expected to fall. While some analysts warned that September's Fed cut could be a "sell the news" event if expectations are already priced in, most market participants remained comfortable adding exposure to credit. Overall, the tone in primary and secondary markets stayed positive, with liquidity improving as more issuers came to market.

Emerging markets also benefited from the global shift toward easier policy. In Latin America, currencies and bonds gained as investors welcomed the weaker dollar and the outlook for Fed easing. In Asia, support came from expectations of new stimulus in Japan and further policy measures in China, though concerns about deflation in China kept some caution in place. GCC bonds held firm through the week, with sukuk and sovereign curves supported by lower global yields and the prospect of easier global liquidity. Oil price swings created short-term volatility, but the broader funding backdrop was more important for the region. Several EM and GCC issuers moved quickly to raise debt, making use of the stronger demand environment. The combination of falling yields, steady spreads, and healthy issuance confirmed that conditions remain constructive for regional borrowers.

Today, Al Jazira Bank is launching a new perpetual sukuk, with initial price thoughts around 6.875%. The bank is the third largest Islamic bank in Saudi Arabia, with a strong focus on corporate lending and deposits, and is majority owned by Saudi shareholders, with about 83% of its shares freely traded in the market. In addition, we also received a mandate announcement from Almarai Company for a 5-year senior unsecured sukuk. So far this year, total GCC issuance has reached 94.7 billion dollars, with Saudi Arabia contributing 58% of the total

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)



Equity Update

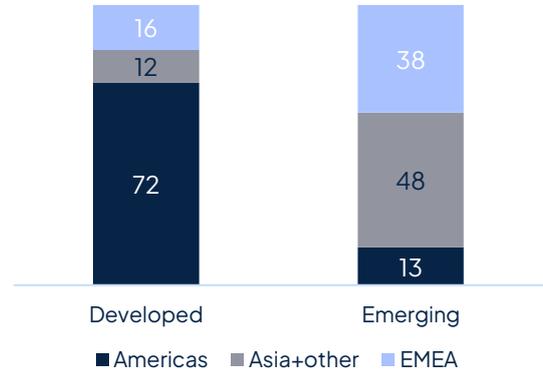
Global equities climbed last week as confidence in Fed rate cuts firmed, and regional catalysts added momentum. MSCI ACWI gained 1.7%, with developed markets up 1.5% and emerging markets ahead 4.0%. Softer US labor data and easing inflation reinforced the view that September will mark the start of policy easing, giving equities a broad tailwind and extending flows into rate sensitive pockets and growth themes. The S&P 500 rose 1.6% and reached new records before momentum slowed into the close. Technology carried the lead once again, with Oracle jumping more than 30% after announcing major cloud contracts tied to AI demand, which lifted confidence across infrastructure peers. Apple introduced the iPhone 17 with a design focused message, though delays in China and higher price points tempered initial enthusiasm. Beyond company news, the FTC launched probes into Amazon and Google over advertising practices, keeping regulatory scrutiny on the largest platforms in focus. Market breadth narrowed as equal weighted indices advanced relatively less; the equal weighted S&P is up 0.2% last week.

Europe added 1.0% with MSCI Europe finishing higher but moving with less conviction. Defensives and energy steadied returns as industrials and autos came under pressure from uneven headlines. Novo Nordisk announced job cuts and restructuring to reinforce margins, offering some support to healthcare after a weak summer, whereas Ocado slumped after doubts emerged about its US partner's expansion. UK GDP was flat in July and inflation in Germany and France edged higher, reinforcing a picture of subdued growth alongside sticky prices. By week's end, European indices had consolidated recent gains, with leadership narrowing and sponsorship thinning.

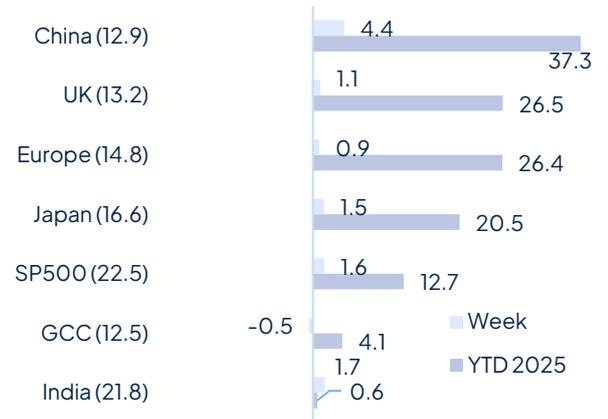
Asia stood out with the strongest performance. MSCI China jumped 4.2% in its best week since March, powered by a surge in semiconductors and AI-linked shares, record inflows into Hong Kong ETFs, and signs of stabilization in property after Shenzhen home sales improved. Biotech fell sharply on reports of potential US restrictions but recovered much of the loss by the close. Hong Kong technology names rallied on renewed confidence in platform growth and fundraising momentum. Japan's TOPIX rose 1.8% as exporters and trading houses lifted the market to record highs before profit taking set in. India gained 1.7% as steady domestic inflows and increased index weightings supported structural demand. Across the region, policy support and earnings traction reinforced Asia as the clear outperformer of the week.

The week closed with equities higher across both developed and emerging markets. Into September, the balance of forces still leans toward selective risk taking, with AI, liquidity support and central bank easing driving the advance even as valuations and macro fragilities temper conviction.

Equity Recommended Regional Positioning

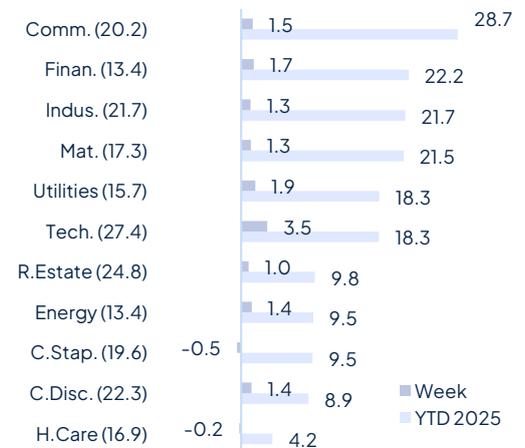


Major Indices Performance (TR, US\$), P/E in brackets



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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