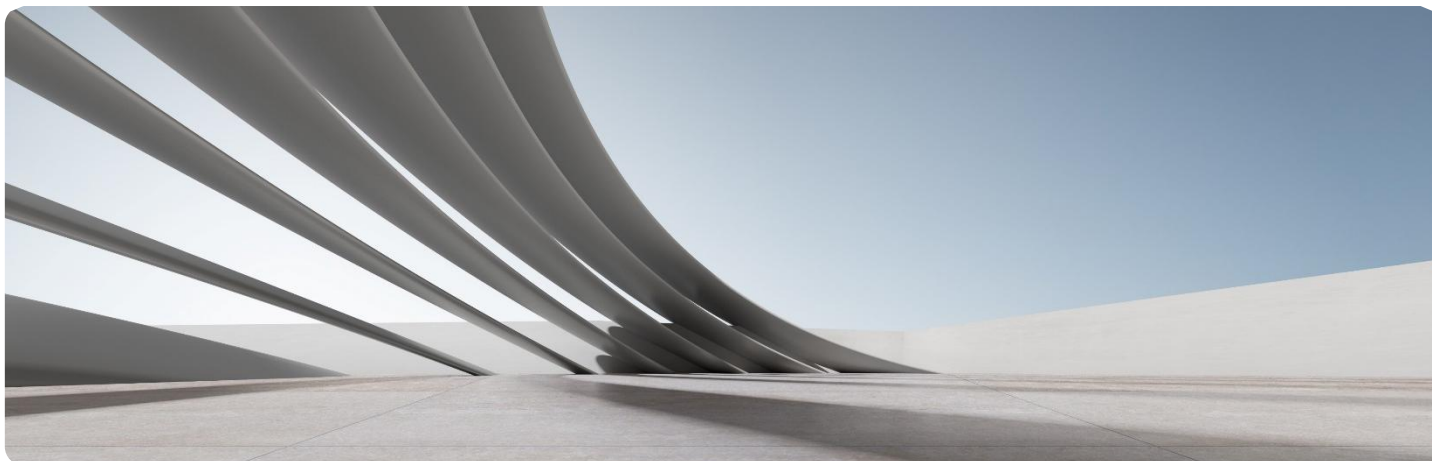


Turbulences!

- Last week was extremely volatile, due to politics and credit concerns, even if it ended positively for most markets
- We expect turbulence to persist in the short term, although we see no fundamental reversal
- Vulnerability comes from rich valuations and optimism. Long term diversification is the remedy



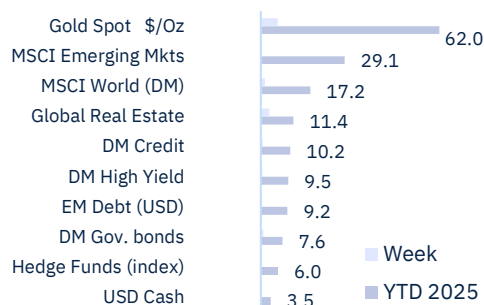
Risk appetite was seriously dented last week, with a significant peak in volatility. Market conditions are clearly going to be vulnerable for some time, between elevated valuations in pretty much all asset classes, and no support anymore from bearish positioning and sentiment. It's quite the opposite: October started with a number of strategists and allocators expressing their confidence in everything from stocks to gold. All that was needed to shake the consensus was catalysts, and between a US government shutdown, rhetorical escalation between the US and China, and some worrying cracks in some segments of credit, it happened.

Volatility was massive last week as a result. Yet, returns were actually positive for all asset classes, except for stocks from emerging markets, which were all about China as a reaction to the trade tensions with the US. Gold had one bad day but gained almost 6%. Stocks were up in developed markets, with a positive start from the earnings season overall. Bonds saw another drop in US Treasury yields, to levels unseen in a while (below 4% for the 10-year), under the double influence of "flight to quality" and the possibility that the Fed may end their quantitative tightening soon. The dollar logically weakened, and so did oil prices. But overall, it was a good week.

Should we worry about the near term? We believe that the short-term is as unpredictable as ever, and that volatility will continue, despite probably good news from corporate earnings. We would recommend against any short-term risk taking especially with leverage. Having said that, fundamentals are still in place: resilient growth, more monetary easing, robust earnings, and reasons to believe that long-term drivers are still in place for gold or AI, for example.

Our positioning remains slightly defensive. Diversification works over the long-term. The week ahead will provide corporate earnings, flash PMIs, an important Plenum in China and potentially more drama from politics. Have a great week.

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



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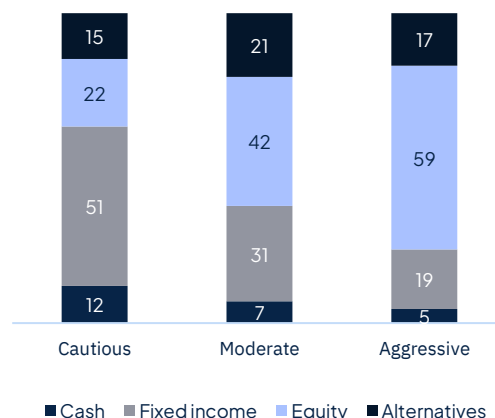
Cross-asset Update

Last week saw heightened concerns related to borrower creditworthiness in the US market. The barrage of dovish Fed officials' declarations, though bullish in perspective, was no longer sufficient to push stocks to new highs, as two regional banks disclosed problems with loans due to alleged fraud putting the spotlight back on the credit sector. It is feared more cracks could emerge, and JPMorgan's CEO Dimon used his bank's losses from auto lender Tricolor to say there is never just one cockroach. IMF Head Georgieva said on Thursday that risks building in the private credit market keep her awake at night. Lending from less regulated non-banking financial institutions could put the world in "a difficult place" if the private credit sector continues to grow and then the global economy weakens. Bad loans are telling us that both past underwriting standards must have been somewhat lax, and that financial conditions are currently too tight in the US economy. Indeed, whenever in the past Fed funds held above the yield on the 10-year Treasury note for an extended period the economy wobbled in short order. The Federal Reserve bank seems to be growing increasingly aware and recently public Fed officials' declarations were only leaning dovish with lingering uncertainty about the magnitude of future cuts, rather than the possibility of them happening. And more liquidity should be expected to be coming to the market in China as well. Beijing is underachieving substantially in terms of nominal GDP growth as per some investment research that looks underneath the surface of the Chinese official data.

The expectation of rising liquidity can keep economies afloat and support markets against the backdrop of what seems to be a Goldilocks scenario. Yet, the ranking of YTD returns across asset classes and countries, or geographical areas, is not suggestive of a 'neither too hot nor too cold' scenario either. Gold and EM equities are outperforming, an occurrence that tends to happen in cyclical uplegs within secular bear markets, and Japan performing better than US equities also hinting to a secular bear. It looks like the old economy is staging a comeback, with a commodity like gold and manufacturing-led EM countries leading as against the US market driven by AI investments. The pro-cyclical Japan benchmark outperforming is just confirming this kind of picture. We continue to uphold the view that investors should be diversifying away from the expensive US equities, and from the historically overvalued IT sector, into ex-US stocks as well as into the more cyclical market sleeves.

The improved performance of old-economy stocks can be extrapolated into the future, given under-investments in hard assets and that countries are scrambling to reindustrialize or reshore. The tide is turning, and investors are advised not to keep most of their eggs in the US basket.

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

Emerging credit concerns have dominated market discussions. A wave of safe-haven buying pushed benchmark yields to their lowest levels in months, with the two-year yield dropping beneath 3.4% and the 10-year yield making its sharpest move below 4% since April. The 10-year yield fell to 3.93% on Friday, its lowest since 7 April, before recovering to 4%. The delayed release of the US CPI report coming Friday is set to draw significant attention. This abrupt bond rally echoed the events of March 2023, when Silicon Valley Bank's collapse triggered a fall of more than a percentage point in the two-year yield.

We don't expect such downward pressure on yields to go away anytime soon. The trade tension between US-China and the credit quality issues are not going to go away anytime soon. Moreover, the positioning became more bearish last week, and traders are positioned for yields to rise with duration positioning according to the JPM Client Survey trailing 1 standard deviation below the 1-year average. This works as a contra indicator. Upcoming CPI report this Friday from the US would determine short term treasury direction which should lead to higher Treasury volatility.

S&P unexpectedly downgraded France's credit rating from AA- to A+, citing heightened budgetary uncertainty. The county has now lost its AA rating from 2 out of 4 major rating agencies which would result in certain pension funds reducing holding of the country's bonds. Moody's Ratings due to release its verdict on Friday. Yields on French debt rose led by longer-dated tenors, with 10-year yields up as much as three basis points to 3.39%.

Volatility has emerged in the credit space with HY spreads at their widest since June this year. Outflows are seen in the HY fund space while inflows in the IG space have slowed down. On the supply side, issuance picked up with banks coming to the market, but the overall tally remains muted at just \$33bn priced MTD. Q3 earnings season appears to be off to a solid start with 58 firms of the S&P500 that have reported already surprising to the upside by 5.75% on earnings. With spreads so tight it is hard to argue for value or an overweight positioning.

Within MENA, high beta sovereigns such as Egypt and Bahrain have done well recently. We had seen some weakness in the regional Real Estate names at the start of the week. However, majority of the HY Real Estate names have bounced back from the lows trading only 1% lower. Bank perpetual space continues to do well with recently issued Turkish bank AT1 sukuks demonstrating strong demand.

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)

EM Sov	0.5	10.3
USD Corp IG	0.7	10.2
Global HY	0.5	9.5
EM Debt	0.4	9.2
GCC Debt	0.5	8.9
Asian HY	0.0	8.7
EM Local	0.5	7.8
EM Corp	0.4	7.2
US HY	0.5	7.1
US Treasuries	0.4	6.4
DM Sovereign	0.5	3.9
Pan-European HY	0.1	3.7
EUR Corp	0.4	2.9

Equity Update

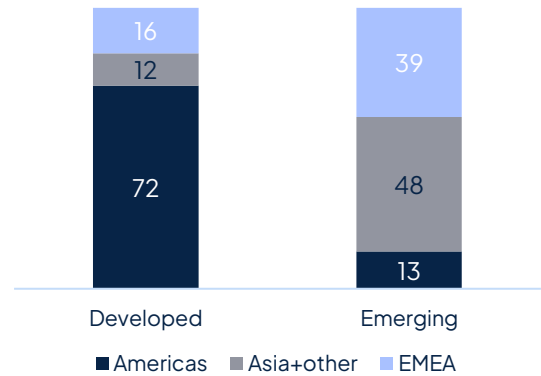
Global equities rebounded as markets found reassurance that the earnings cycle remains intact. The MSCI ACWI rose 1.1%, supported by solid gains in the US that offset softer performance in Asia. The S&P 500 gained 1.7%, its strongest week since August, the Nasdaq climbed 2.5%, and the Dow added 1.6%. Market sentiment improved after President Trump adopted a conciliatory stance on trade and confirmed a meeting with President Xi at the upcoming summit, easing geopolitical concerns. In the US, equities endured a volatile start before closing the week on a firm footing. A sharp selloff in regional banks midweek followed fund loan collateral disclosures from Zions and Western Alliance, reigniting credit-quality concerns. Those fears eased as results from Truist, Fifth Third, and Regions showed lower provisions for loan losses and stable capital ratios, confirming the issue was contained. By Friday, the S&P Regional Banks Index had recovered part of its losses, helping financials stabilize and restoring confidence across the broader market. Corporate earnings provided further support. JPMorgan delivered record profits, with net income up 16% to \$14.4 billion on strong trading and deposit growth. Goldman Sachs, Citigroup, and Morgan Stanley all beat estimates, benefitting from improved investment banking and markets revenue. Wells Fargo raised profitability targets, and American Express advanced after lifting full-year guidance on robust consumer spending.

In Europe, equities rose as the MSCI Europe gained 0.5%, supported by a strong rebound in luxury stocks. The MSCI Europe Luxury 10 index climbed 7%, its second-best intraday performance this year, with LVMH up 12%, Christian Dior nearly 12%, and Kering, Moncler, and Burberry advancing between 3% and 5%. Defense stocks declined as geopolitical tensions eased, with Rheinmetall, Saab, and Hensoldt down 5%–6%, and Renk falling 9%. Novo Nordisk dropped more than 6% following renewed scrutiny in Washington over U.S. drug pricing, reigniting policy uncertainty for the healthcare sector.

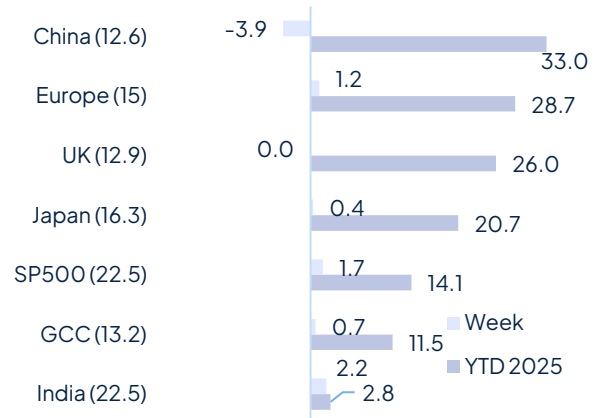
Within Asia, Chinese equities saw their worst week since April as trade frictions over rare earth exports pressured sentiment. The Hang Seng Index fell 2.5% and the CSI 300 declined 2.3%, with investors rotating into high-yield state-owned names. Japan's TOPIX dropped 0.9% as the yen strengthened, while banks and exporters retreated on a stronger yen. Nintendo gained after signaling strong Switch 2 demand. Taiwan and Korea held firmer on AI-chip strength, and India outperformed again as bank and consumer earnings remained robust.

Global markets ended the week on a firmer footing. Liquidity conditions remain supportive, monetary policy continues to lean accommodative, and early earnings have reinforced confidence in corporate resilience. This week will bring results from Tesla, Ford, GM, Intel, and Netflix.

Equity Recommended Regional Positioning

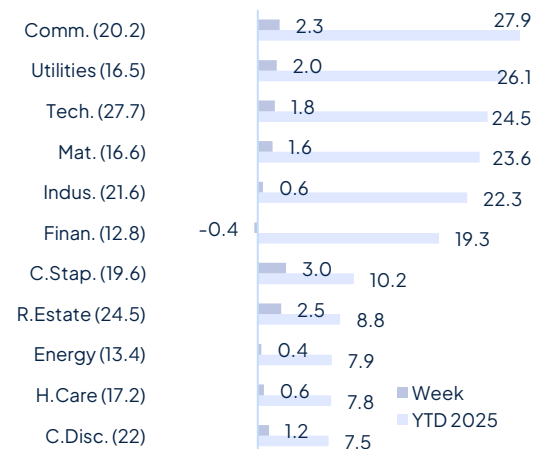


Major Indices Performance (TR, US\$), P/E in brackets



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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