



BANQUE
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QUARTERLY OUTLOOK
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SOMMAIRE

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1. EDITORIAL

SLOW DOWN

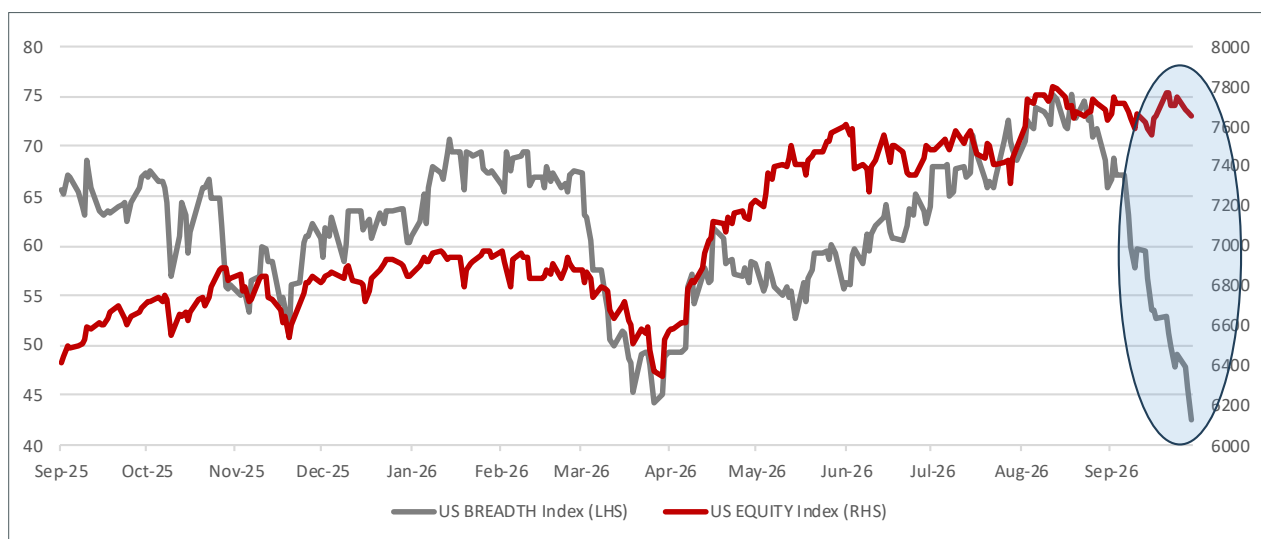
A centrist German voter, a French citizen, the head of an American technology company: in recent days, each was thinking about “slowing down”. Slowing the rise of extremism, slowing the pace at which the country is taking on debt, slowing the pace of AI development. This tireless AI which, having barely solved the Navier-Stokes equations*, was about to win the Prix Goncourt in Paris! All of this is quite unsettling, and it is easy to imagine far more concerning applications but let’s leave science-fiction scenarios aside for now and get back to the markets.

Bonds, under pressure since the end of summer, are not slowing down, quite the opposite in fact. The US 10-year yield now stands at 5.25%, while the French 10-year is at 4.75%, trading 110 basis points above the German yield. These levels bring back bad memories: you have to go back almost 20 years to see US debt priced at this level. As for French debt, the 110bp spread was first breached during the

2011/2012 Euro crisis. At the time, Mario Draghi made history by stabilising the system with his famous “whatever it takes” mantra. In these troubled times, and to borrow his turn of phrase, to us it seems “it will take a lot”, and Mario Draghi’s absence may well be felt. This build-up of clouds over the bond market briefly slowed the rise of US equities, but they quickly re-established their highs.

As yields climb sharply, the resilience of equity indices is surprising and should be examined. First caveat: this stability applies to US markets, much less so on this side of the Atlantic. But if we focus on the United States, a look at the behaviour of individual stocks reveals two distinct realities co-existing. A very large part of the market under selling pressure, while a few index heavyweights remain on a positive trend and “rescue” the whole. To put some numbers on this observation, two statistics are worth looking at. The first relates to what market participants call “market breadth” i.e. when the index rises, are 75% of stocks rising, or just 50%?

G1: US MARKET BREADTH



Source: Bloomberg, Banque Eric Sturdza, September 2025 to September 2026

The current rally is unusual, with very few stocks participating; so few that most stocks have been in a downtrend for weeks: 55% of stocks are now trading below their 200-day moving average.

Another useful measure is beta, the sensitivity of each stock to its benchmark index. Most of the time this figure is positive: below 1 when the stock is less volatile than its index, above 1 otherwise. Today, 45% of S&P 500 constituents have a negative beta. Such a high proportion of stocks moving against the market has never before been observed, and clearly reflects the striking split within the market.

Let's look at stocks behaving in a more traditional manner and therefore with positive beta. Among them, once again it is mainly technology stocks that are driving the indices (the technology sector is now up 35% year-to-date). This performance reflects an extraordinary rise in earnings, and it can be considered healthy in that respect. However as discussed in previous commentaries, this sector's business model has changed radically. Most of the major players where once "sitting on mountains of cash", are now becoming net borrowers to fund their many AI-related projects. Historically, investors had to watch valuation multiples; today they need to watch debt, future spending and off-balance-sheet commitments. This will surely be the key to avoiding becoming the victim of all these moves that show no sign of slowing down, from AI to the bond market.

**The Navier-Stokes equations govern the laws of fluid flow. They were part of a set of unsolved problems the so-called "millennium problems".*

2. FIXED INCOME

US 10-YEAR AT 5.20%: IT'S STARTING TO STING!

A message, but for whom?

US long-term yields have started rising again, reaching levels not seen since 2004. Why does the drift continue? Inflation does not explain everything. The bond markets are sending us a message, but who are the main recipient targets?

US yields are suffering from a rather unprecedented “misalignment” of the planets that has led to the current situation. We face several uncertainties: uncertainty over the conflicts in the Middle East and Ukraine, uncertainty about Donald Trump’s strategy, uncertainty about the mid-term elections, uncertainty about Fed policy and the new style introduced by Kevin Warsh, and uncertainty about the ability of the Treasury and Scott Bessent to halt the bear market. One additional uncertainty is of considerable importance: flows. While the Chinese are no longer keen on US debt for obvious strategic reasons, the Japanese (regularly cited as the largest foreign buyers of Treasuries) are now turning to their

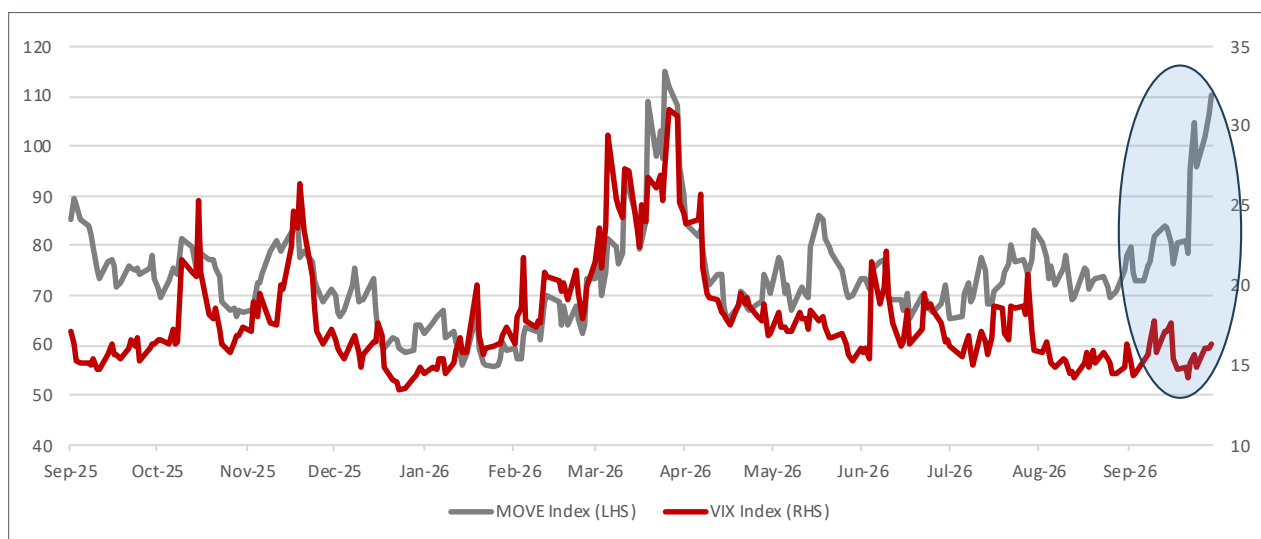
domestic bond market to find yield in yen. Add to these issues those that the markets had so far chosen to ignore, such as US deficit (a budget deficit approaching 6% of GDP), a debt pile exceeding USD 40 trillion and the dollar’s loss of leadership, and we end up with an explosive cocktail that explains current yield levels.

The message sent by the bond markets is addressed to the country’s leaders, and to Donald Trump in particular: the nation’s finances will need to be managed more actively and effectively. Next, Warsh and Bessent will need to deliver lasting solutions. Finally, the message is addressed to equity markets, which are currently turning a deaf ear, but for how long?

Bond strategy: what are the implications?

We cannot say exactly how far this sell-off in US long-term yields will go, but we are carefully observing. Since mid-August, we have continued to

G2: VIX AND MOVE



Source: Bloomberg, Banque Eric Sturdza, September 2025 to September 2026

build duration in US Treasuries, particularly in real yields via TIPS. We fully understand that some investors are reluctant to add duration in nominal yields, as uncertainty is high and there is a genuine debate about the direction of long-term nominal yields. Real yields, however, are already very high and should not keep rising. TIPS are therefore a good way to add duration to portfolios at “lower risk” than nominal bonds. If 3-year US Treasury yields reach 5%, this means that debt from some high-quality companies now trades between 5.20% and 5.50%. We will therefore probably again consider target-maturity portfolios, to lock in very attractive yields over an investment horizon short enough to offer a compelling strategy.

In summary

Long-term yields are broadly at their highest in more than 20 years; credit spreads are low but started to widen slightly at the end of September. However, the short-dated TIPS market offers exceptional investment opportunities in 18-month real yields.

3. EQUITIES

MARKETS HIGHER, BUT FRAGILE

From July to September, investors had to contend with a great deal of bad news: war in the Middle East, expensive oil, rising inflation and climbing interest rates. Yet stock markets held up well. Despite a weak September, the US S&P 500 index gained 2.3% over the quarter and remains close to record highs. The main reason: corporate earnings are robust and growing strongly. Moreover, earnings rose faster than share prices, making equities slightly cheaper in almost every region.

Regional differences remained pronounced. Japan led the way (+6.4%), while Europe fell 1.7%, as investors doubted its ability to keep pace with the earnings growth seen elsewhere. The Swiss stock market is up around 5% since the start of the year. Smaller companies, which are more sensitive to borrowing costs, suffered: the US small-cap index fell around 7.5% over the quarter.

A rally driven by a small number of companies

The record highs of US indices hide a less positive reality: the gains come from only a minority of companies. In the third quarter, it was mainly large technology and AI-related stocks that drove the market. Most other sectors ended in the red, particularly utilities, industrials and real estate. The technology sector now accounts for almost 40% of the S&P 500 index, nearly 5 percentage points more than a year ago. This is known as weak “market breadth”: when only a few stocks rise, the index’s progress becomes more fragile. For investors, the consequence is very real. An investment that appears diversified,

such as a fund that tracks the S&P 500, actually depends heavily on a single theme. If hopes placed in AI were to be disappointed, the impact on the index as a whole would be all the greater. Another reason to spread investments across sectors and regions.

Geopolitics: oil remains centre stage

On the geopolitical front, the conflict with Iran and its possible spread across the region remain the main sources of concern. Brent crude rose back above 100 dollars a barrel for most of September. Iran still claims control of the Strait of Hormuz, where shipping traffic remains well below pre-war levels.

Artificial intelligence: hopes and uncertainties

The tech giants are investing colossal sums in AI: the four largest plan to total spend around 700 billion dollars in 2026. The problem is that AI revenues are still almost 8 times lower than what would be needed to make these investments profitable. In addition, this huge spending is increasingly financed through debt and share issuance, and sometimes even through more “creative” arrangements, such as circular investments between players in the sector. Markets are therefore becoming more demanding: some US data centre construction companies, whose shares had more than doubled in the first half of the year, lost between 41% and 53% in the 3rd quarter.

Outlook for the 4th quarter

Several key events will become decisive over the coming months:

- Tech giants' results at the end of October: investors are waiting to see whether they confirm a solid outlook for 2027. Given the extreme concentration of the market, these results will carry even more weight.
- Central banks: the Fed meets on 28 October. In our view, it is unlikely to act so close to the elections, but a further rate hike in December cannot be ruled out. In addition, the market expects another ECB hike in December, and the SNB will announce its decision in mid-December. All of this reinforces the current tightening of financial conditions.
- The US mid-term elections in November: the media noise generated by Mr Trump and the uncertainty ahead of the vote are likely to increase market volatility. Furthermore, you cannot rule out an Iranian military escalation aimed at driving up oil prices before the election.

In summary, the economy remains solid and corporate earnings are supporting equities, but markets are likely to remain volatile. In this context, diversification remains the best protection: avoid betting too heavily on a single theme such as AI. We recommend to keep a long-term horizon.

5. PERFORMANCES

EQUITIES	30.09.2026	CURRENT	1M	3M	6M	YTD	2025	2024	2023	2022	2021
WORLD	MSCI WORLD	4 903	-1,3%	1,6%	15,1%	10,7%	19,5%	17,0%	24,4%	-17,7%	22,4%
	MSCI WORLD GROWTH	7 520	-0,2%	-0,2%	18,5%	8,3%	20,4%	25,1%	37,3%	-29,0%	21,4%
	MSCI WORLD VALUE	4 915	-2,4%	3,4%	12,3%	13,1%	18,2%	9,0%	12,4%	-5,8%	22,8%
US	DOW JONES	50 906	-4,3%	-2,7%	9,8%	5,9%	13,0%	12,9%	16,2%	-6,9%	20,9%
	S&P 500	7 652	-0,5%	2,0%	17,2%	11,8%	16,4%	23,3%	26,3%	-18,1%	28,7%
	S&P500 EW	8 429	-5,0%	-2,3%	8,4%	8,6%	9,3%	10,9%	13,8%	-11,5%	29,6%
	NASDAQ 100	30 409	3,2%	0,4%	28,1%	20,4%	20,2%	24,9%	55,1%	-32,4%	27,5%
	RUSSELL 2000	2 797	-5,4%	-7,5%	12,0%	12,7%	11,3%	10,0%	16,9%	-20,5%	14,8%
EUROPE	STOXX 600	635	-2,5%	-1,1%	8,9%	7,2%	16,7%	6,0%	16,6%	-9,9%	25,8%
	FTSE 100	10 606	-2,0%	1,0%	4,2%	6,8%	21,5%	5,7%	7,7%	4,6%	18,4%
	CAC 40	7 965	-4,4%	-5,2%	1,9%	-2,3%	10,4%	-2,2%	20,1%	-6,7%	31,9%
	DAX	25 199	-4,0%	0,8%	11,1%	2,9%	23,0%	18,8%	20,3%	-12,3%	15,8%
	SWISS MARKET	13 830	-3,2%	-2,6%	8,2%	4,2%	14,4%	4,2%	7,1%	-14,3%	23,7%
EM & ASIA	MSCI Asia ex Japan	1 132	-0,6%	-1,0%	25,7%	23,9%	29,3%	9,8%	3,6%	-21,5%	-6,4%
	TOPIX	4 109	-1,1%	2,9%	17,5%	20,5%	22,4%	17,7%	28,3%	-2,5%	12,8%
	HANG SENG	24 613	-3,7%	7,6%	-0,7%	-4,0%	27,8%	17,7%	-10,5%	-12,6%	-11,8%
	CSI 300	4 358	-5,8%	-12,5%	-2,1%	-5,9%	17,7%	14,7%	-9,1%	-19,8%	-3,5%
SECTORS	Communication Services	171,5	3,5%	3,5%	10,7%	2,9%	30,9%	32,6%	44,0%	-37,6%	13,4%
	Consumer Discretionary	464,2	-6,2%	-4,4%	3,7%	-7,7%	7,4%	20,4%	33,6%	-34,0%	17,1%
	Consumer Staples	301,6	-3,9%	-3,1%	-1,9%	1,5%	6,4%	3,5%	0,1%	-8,0%	10,8%
	Energy	358,2	-2,4%	14,5%	-1,4%	34,0%	9,8%	-0,4%	-0,7%	41,1%	35,1%
	Finance	240,5	-5,7%	1,4%	12,7%	4,1%	26,1%	23,8%	13,1%	-12,4%	25,1%
	Healthcare	415,5	-1,9%	3,0%	9,6%	4,0%	13,2%	-0,1%	2,4%	-6,6%	18,3%
	Industrials	537,2	-4,2%	-5,9%	5,2%	7,5%	23,0%	32,2%	52,3%	-31,3%	15,1%
	Information Technology	1253,6	4,4%	6,1%	41,7%	28,8%	23,4%	11,7%	21,2%	-14,6%	29,1%
	Materials	432,6	-7,6%	0,6%	1,6%	9,1%	23,4%	-7,5%	11,7%	-13,7%	12,9%
	Utilities	192,7	-5,3%	-10,1%	-10,7%	-3,3%	21,7%	10,0%	-2,5%	-7,0%	7,1%
CURRENCIES & COMMODITIES	30.09.2026	CURRENT	1M	3M	6M	YTD	2025	2024	2023	2022	2021
CURRENCIES	EUR-USD	1,133	-2,5%	-0,8%	-1,9%	-3,5%	13,1%	-6,2%	3,1%	-5,9%	-6,9%
	USD-CHF	0,836	3,4%	3,4%	4,5%	5,5%	-12,3%	7,8%	-9,0%	1,3%	3,1%
	USD-JPY	157,4	-1,5%	-3,2%	-0,8%	0,4%	0,3%	11,5%	10,5%	13,9%	11,5%
	USD INDEX	101,45	2,0%	0,3%	1,5%	3,2%	-9,1%	7,1%	-2,1%	8,2%	7,0%
COMMODITIES	Gold	4157,41	-6,3%	3,7%	-10,9%	-3,7%	65,3%	27,2%	13,1%	-0,3%	-4,2%
	Silver	60,43	-9,2%	3,1%	-19,6%	-15,7%	132,4%	21,5%	-0,7%	2,8%	-13,6%
	WTI Crude Oil	90,42	5,4%	30,1%	-10,8%	57,5%	-21,0%	0,1%	-10,7%	6,7%	59,1%
	Copper	14 453	0,1%	8,3%	17,9%	16,1%	37,4%	2,2%	0,9%	-14,1%	25,7%
FIXED INCOME	30.09.2026	CURRENT	1M	3M	6M	YTD	2025	2024	2023	2022	2021
RATES	US 10 year gvt	5,28	0,53	0,82	0,97	1,12	-42 bps	69 bps	0 bps	237 bps	60 bps
	German 10 year gvt	3,59	0,26	0,73	0,58	0,73	53 bps	34 bps	-54bps	275 bps	39 bps
BONDS	Global Aggregate USD hdg.	599,8	-1,6%	-2,5%	-1,3%	-1,4%	4,6%	3,4%	7,1%	-11,2%	-1,4%
	Global Aggregate EUR hdg.	213,8	-1,8%	-2,9%	-2,1%	-2,7%	2,5%	1,7%	4,7%	-13,3%	-2,2%
	Global Aggregate CHF hdg.	153,4	-2,0%	-3,6%	-3,3%	-4,4%	0,3%	-1,0%	2,5%	-13,7%	-2,5%
	US Treasuries	2367,5	-2,2%	-3,0%	-2,7%	-2,8%	6,1%	0,6%	4,1%	-12,5%	-2,3%
	US IG Corporates	3434,8	-2,7%	-3,9%	-2,6%	-3,1%	7,5%	2,1%	8,5%	-15,8%	-1,0%
	US High Yield	2917,5	-2,5%	-1,8%	0,6%	0,1%	8,2%	8,2%	13,4%	-11,2%	5,3%
	Euro Government	237,3	-2,1%	-4,3%	-2,5%	-3,1%	0,3%	2,0%	7,1%	-18,2%	-3,4%
	Euro IG Corporates	262,6	-1,3%	-2,5%	-0,2%	-1,2%	2,8%	4,7%	8,2%	-13,6%	-1,0%
	Euro High Yield	503,8	-1,8%	-1,5%	1,8%	0,3%	4,6%	9,1%	12,8%	-11,1%	4,2%
	EM USD Aggregate	1365,9	-2,9%	-3,5%	-0,2%	-1,5%	10,9%	6,6%	9,1%	-15,3%	-1,7%

Source: Bloomberg, 30/09/26



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