BANQUE
ERIC STURDZA

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1. EDITORIAL
COUNTERWEIGHTS

"To prevent the abuse of power, power must, by the very arrangement of things, check power." **When Montesquieu wrote these lines in *"The Spirit of the Laws"* in 1748, he was obviously not thinking of the S&P 500 or of data centres. Forty years later, however, the drafters of the US Constitution drew direct inspiration from it, and James Madison (the 4th President of the United States) summed up the idea in his own words: *'Ambition must be countered with ambition.'* On 3 November, American voters set this mechanism back in motion. By taking control of both the House of Representatives and the Senate, the Democrats now act as a counterweight to a Republican White House.**

As a first reaction, markets welcomed the outcome: the day after the vote, the S&P 500 gained 1.5%. This was not a partisan preference but an old habit. Investors like gridlock because it reduces the risk of legislative surprises, and history has often proved them right. In 1995, Bill Clinton had to work with a newly elected Republican Congress, and the year ended with the S&P 500 up more than 40%. The comparison has its limits, since the United States of 1995 faced neither a conflict in the Middle East nor debt on today's scale. It is nevertheless a reminder that a constrained government is not necessarily bad news for markets.

The counterweight remains only partial, however. Congress regains control over the budget and investigations, and the Senate will oversee key appointments, notably to the Federal Reserve and to the Supreme Court. This is a welcome safeguard for a central bank that has so far managed to preserve its independence. But the White House retains considerable latitude over tariffs and foreign policy, through executive orders. Above all, the war with Iran does not depend on Congress, and it could resume quickly. Brent crude ended October above 117 dollars a barrel, its highest level since May. In this context, pressure on inflation and long-term interest rates will not disappear with the result of this election.

The new political landscape is not the most favourable for AI. Regulatory risks are rising, investigations targeting the major players becoming a reality, and local restrictions on data centres will need to be monitored. Investment itself is nevertheless expected to continue, as it depends more on the race for technological leadership than on the composition of Congress.

The vote does, however, brighten the outlook for other assets. By limiting major budget initiatives, a Congress at odds with the White House could slow the rise in long-term yields and, in turn, the rise of the dollar. This would offer gold some welcome breathing space after a difficult October (-7%). International equities, particularly in emerging markets, also gain popularity, as the threat of new tariffs and the pressure to invest in the United States could recede.

Montesquieu was wary of power without any limits. Investors would be wrong to be any less wary of investment themes without any counterweights. AI remains a long-term revolution, but October was a reminder that a portfolio concentrated on a single idea resembles a regime without checks and balances: brilliant as long as all goes well, fragile as soon as the wind turns.

2. FIXED INCOME

AI IS PUSHING THE FED, THE ECB AND THE MID-TERM ELECTIONS INTO THE BACKGROUND

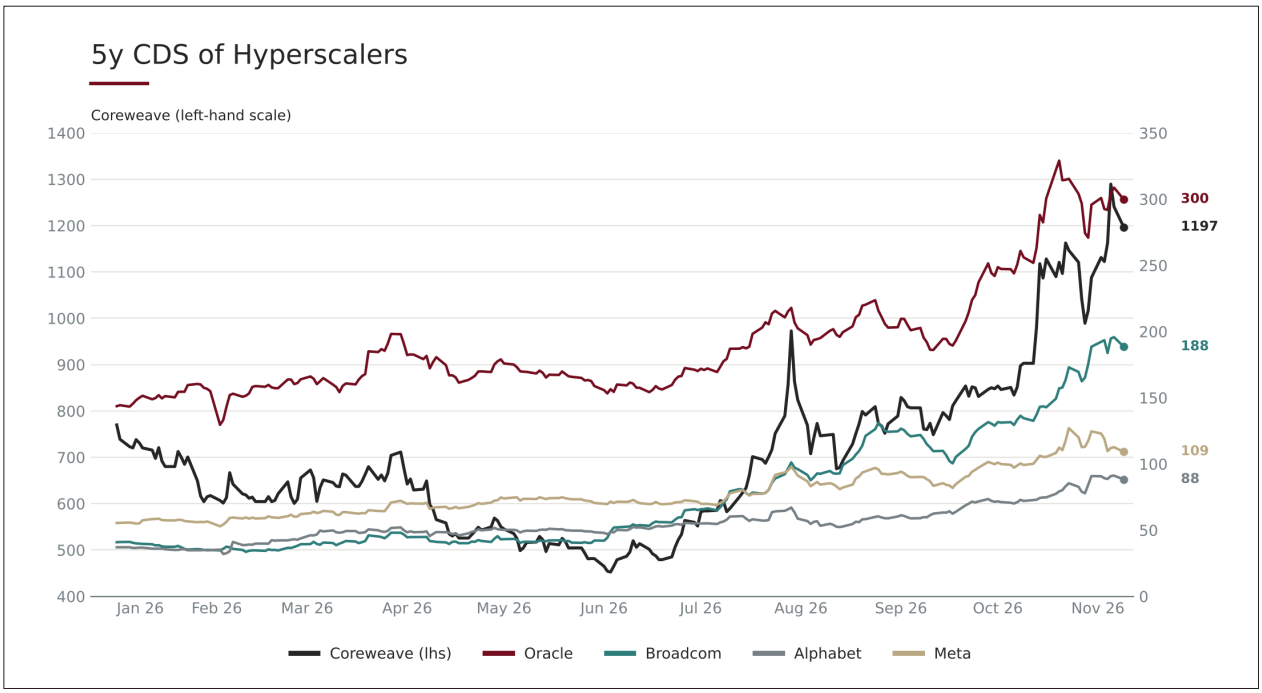
Fears of an AI bubble

Inflation is a major concern for central banks, but it has already ceased being one for markets. The Fed and the ECB remain vigilant, as the fight against inflation is enshrined in their mandates, but markets are moving on to other matters. What if the AI bubble were to burst? What if a slowdown or recession were to feature on the New Year's Eve menu? We may have overestimated the projected cash flows of AI players, and the staggering sums borrowed by the hyperscalers may come back to haunt us. It already seems long ago when we used to say that it didn't matter what interest rate they borrowed at, as they were set to rake in massive profits. The result: they now find themselves having to turn to the market at a time when underlying government bond yields have risen alongside their CDS spreads.

The bill is steep and the tide is turning. The question on everyone's lips now: is the sector's correction a necessary and/or sufficient condition for a year-end bond bull market in government bonds?

The Fed and the ECB: a welcome status quo

Both the Fed and the ECB opted for a monetary status quo at the end of October. The Fed is buying itself time. Although the economy remains robust and inflation persists, the US central bank wishes to have more data before taking any decisions. The labour market remains strong, first-half growth has been revised upwards from 1.8 per cent to 2.4 per cent, and third-quarter growth is estimated at 3 per cent. In theory, these figures should enable the Fed to crack down hard on inflation. Yet it is



Source: Banque Eric Sturdza

still hesitating, even though, in its own words, current policy is not restrictive. Without naming it, the AI bubble is on everyone's mind. Central bankers no doubt believe that, despite the satisfactory figures, growth remains fragile and that it would be unwise to slow it down. The ECB's pause follows the same line of thinking, with one significant difference: growth in the eurozone is infinitely more fragile than it is in the United States. It is unlikely to be driven by the tech sector, and any restrictive policy could send France into a slump.

In summary

The end-of-year rally in long-term interest rates, which had been expected around Thanksgiving, got underway a month early. The bond markets have shown little or no reaction to central banks' decisions. The mid-term elections, which were expected to be a major event, have been upstaged by AI, and barring any huge surprises in the results, US long-term rates are unlikely to experience significant fluctuations. What we can expect is for US long-term rates to remain firm between now and the end of the year.

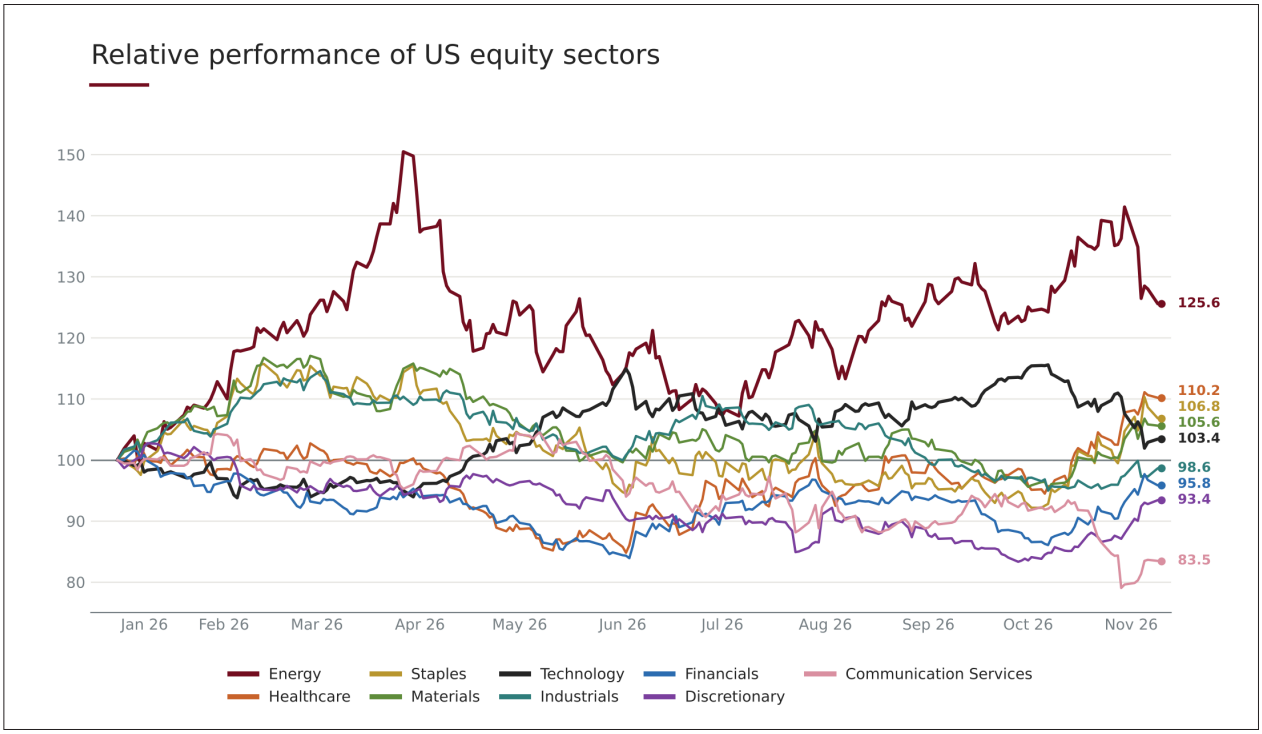
3. EQUITIES

CHANGE OF LEADERSHIP ON THE STOCK MARKET

At first glance, the US stock market barely moved in October: the S&P 500 index fell by just 0.9%. But beneath the surface, it was a turbulent month. The large technology stocks that had been driving the market for months fell sharply, while most other companies rose. The "equal-weighted" version of the S&P 500, in which every company carries the same weight regardless of its size, clearly shows this shift as it gained 4.9% over the month. A gap this large in favour of the majority of stocks had not been seen in the index since April 2009.

AI is no longer enough to convince investors

The trigger came from company results. The tech giants continue to invest considerable sums in artificial intelligence, but investors now want to see profits. On that front, the figures published at the end of October disappointed. Alphabet (Google) had to draw 9 billion dollars from its cash reserves to fund its AI projects, and its share price lost almost 19% over the month. Meta (Facebook) fell 15% after raising its spending once again and announcing a share issue to finance it. At Amazon, AI-related costs exceed cash flow generated, which is pushing the group to borrow. Chipmakers, which are essential to AI, fell by around 14% worldwide. In recent years, simply announcing an investment in AI was enough to lift a company's share price. That is no longer the case: the market is becoming more selective. More broadly, the earnings season remains decent, with more than 8 out of 10 US companies beating expectations. However, the size of these positive surprises is the smallest since the end of 2022.



Source: Banque Eric Sturdza

The return of defensive stocks

The money that left the technology sector moved into more stable sectors, whose business depends little on the economic cycle: healthcare, food and consumer staples all gained around 10% over the month. Energy rose more than 12%, driven by higher oil prices.

In our previous commentary, we highlighted weak "market breadth": the rally rested on a small number of companies. In October, the move broadened to many more stocks. This is rather good news for the market's resilience, even if this broadening came at the expense of the former market leaders.

Switzerland, this month big winner

The Swiss stock market particularly benefited from this shift, as its heavyweights are clearly defensive stocks. Roche (+12%), Nestlé (+10%) and Novartis (almost +7%) drove the SMI, which reached a new all-time high on the 29th October. Over the month, the Swiss index gained 7.1%, while Europe as a whole performed considerably less well (Stoxx 600: +1.9%). European banks, on the other hand, fell sharply, by around 10%, hit by concerns over public finances and the political situation in France.

By contrast, Asian markets, which are heavily exposed to chipmakers, fell steeply: -4.3% for Japan, -8.4% for Taiwan and -15.6% for South Korea. Emerging markets lost more than 8% overall, with a sharp fall in Brazil (-12%) following President Lula's unexpected re-election.

A geopolitical backdrop that remains tense

The conflict in the Middle East continues to weigh on markets. Brent crude ended the month above 117 dollars a barrel, its highest level since early May, after oil tankers struck mines in the Strait of Hormuz. The US Federal Reserve and the ECB both left their interest rates unchanged. This respite came on top of a slight easing in long-term interest rates, with the US 10-year yield falling back below 5%. Together, these two factors supported the sectors most sensitive to interest rates.

US elections: uncertainty lifted

The Democrats won control of both chambers of Congress in the midterm elections on the 3rd November. Markets welcomed the end of the uncertainty. In practical terms, the President and Congress will now have to compromise, which makes major reforms unlikely.

Markets generally like this kind of situation, as it reduces the risk of surprises. Some sectors could suffer, however, such as data centres, big pharmaceuticals and oil. Others could benefit, such as infrastructure and renewable energy. Since 1970, the S&P 500 has risen by an average of 15.5% in the six months following midterm elections, but this average hides wide variations from one election to the next.

Outlook

The change of leadership seen in October does not mean the end of the AI theme, which remains a long-term driver of growth. But it is a reminder that the most prominent stocks are also the most exposed to disappointment.

5. PERFORMANCES

EQUITIES	31.10.26	CURRENT	MTD	3M	6M	YTD	2025	2024	2023	2022	2021
WORLD	MSCI WORLD	4 862	-0,8%	0,3%	4,3%	9,8%	19,5%	17,0%	24,4%	-17,7%	22,4%
	MSCI WORLD GROWTH	7 204	-4,2%	-1,9%	1,1%	3,7%	20,4%	25,1%	37,3%	-29,0%	21,4%
	MSCI WORLD VALUE	5 041	2,6%	2,5%	7,7%	16,0%	18,2%	9,0%	12,4%	-5,8%	22,8%
US	DOW JONES	51 770	1,7%	-1,4%	4,3%	7,7%	13,0%	12,9%	16,2%	-6,9%	20,9%
	S&P 500	7 580	-0,9%	1,2%	5,1%	10,7%	16,4%	23,3%	26,3%	-18,1%	28,7%
	S&P500 EW	8 842	4,9%	1,6%	7,4%	13,9%	9,3%	10,9%	13,8%	-11,5%	29,6%
	NASDAQ 100	28 385	-6,7%	0,4%	3,4%	12,4%	20,2%	24,9%	55,1%	-32,4%	27,5%
	RUSSELL 2000	2 812	0,5%	-4,1%	0,4%	13,3%	11,3%	10,0%	16,9%	-20,5%	14,8%
EUROPE	STOXX 600	647	1,9%	-0,4%	5,8%	9,2%	16,7%	6,0%	16,6%	-9,9%	25,8%
	FTSE 100	10 730	1,2%	-1,3%	3,4%	8,0%	21,5%	5,7%	7,7%	4,6%	18,4%
	CAC 40	7 969	0,1%	-6,3%	-1,8%	-2,2%	10,4%	-2,2%	20,1%	-6,7%	31,9%
	DAX	25 818	2,5%	0,7%	6,3%	5,4%	23,0%	18,8%	20,3%	-12,3%	15,8%
	SWISS MARKET	14 811	7,1%	3,2%	12,7%	11,6%	14,4%	4,2%	7,1%	-14,3%	23,7%
EM & ASIA	MSCI Asia ex Japan	1 038	-8,3%	-5,9%	-0,7%	13,7%	29,3%	9,8%	3,6%	-21,5%	-6,4%
	TOPIX	3 930	-4,3%	-1,8%	5,4%	15,3%	22,4%	17,7%	28,3%	-2,5%	12,8%
	HANG SENG	24 187	-1,7%	-6,6%	-6,2%	-5,6%	27,8%	17,7%	-10,5%	-12,6%	-11,8%
	CSI 300	3 986	-8,5%	-13,1%	-17,1%	-13,9%	17,7%	14,7%	-9,1%	-19,8%	-3,5%
SECTORS	Communication Services	148,3	-13,5%	-10,6%	-17,7%	-11,0%	30,9%	32,6%	44,0%	-37,6%	13,4%
	Consumer Discretionary	478,1	3,0%	-3,3%	-2,6%	-4,9%	7,4%	20,4%	33,6%	-34,0%	17,1%
	Consumer Staples	333,4	10,5%	4,8%	5,6%	12,2%	6,4%	3,5%	0,1%	-8,0%	10,8%
	Energy	404,0	12,8%	14,6%	13,6%	51,2%	9,8%	-0,4%	-0,7%	41,1%	35,1%
	Finance	244,4	1,6%	-3,2%	6,7%	5,8%	26,1%	23,8%	13,1%	-12,4%	25,1%
	Healthcare	456,2	9,8%	11,6%	20,7%	14,2%	13,2%	-0,1%	2,4%	-6,6%	18,3%
	Industrials	530,5	-1,3%	-5,9%	-4,7%	6,2%	23,0%	32,2%	52,3%	-31,3%	15,1%
	Information Technology	1166,1	-7,0%	3,0%	12,2%	19,8%	23,4%	11,7%	21,2%	-14,6%	29,1%
	Materials	428,8	-0,9%	0,3%	-3,1%	8,2%	23,4%	-7,5%	11,7%	-13,7%	12,9%
	Utilities	207,8	7,8%	-1,4%	-6,6%	4,3%	21,7%	10,0%	-2,5%	-7,0%	7,1%
CURRENCIES & COMMODITIES	**31.10.26**	**CURRENT**	**MTD**	**3M**	**6M**	**YTD**	**2025**	**2024**	**2023**	**2022**	**2021**
CURRENCIES	EUR-USD	1,116	-1,5%	-3,2%	-4,9%	-5,0%	13,1%	-6,2%	3,1%	-5,9%	-6,9%
	USD-CHF	0,825	-1,3%	2,2%	5,6%	4,1%	-12,3%	7,8%	-9,0%	1,3%	3,1%
	USD-JPY	157,6	0,1%	0,1%	0,6%	0,5%	0,3%	11,5%	10,5%	13,9%	11,5%
	USD INDEX	101,88	0,4%	2,0%	3,9%	3,6%	-9,1%	7,1%	-2,1%	8,2%	7,0%
COMMODITIES	Gold	3874,62	-6,8%	-4,2%	-16,1%	-10,3%	65,3%	27,2%	13,1%	-0,3%	-4,2%
	Silver	49,10	-18,7%	-14,7%	-33,4%	-31,5%	132,4%	21,5%	-0,7%	2,8%	-13,6%
	WTI Crude Oil	104,12	15,2%	23,0%	-0,9%	81,3%	-21,0%	0,1%	-10,7%	6,7%	59,1%
	Copper	14 329	-0,9%	3,6%	11,0%	15,1%	37,4%	2,2%	0,9%	-14,1%	25,7%
FIXED INCOME	**31.10.26**	**CURRENT**	**MTD**	**3M**	**6M**	**YTD**	**2025**	**2024**	**2023**	**2022**	**2021**
RATES	US 10 year gvt	4,93	(0,36)	0,19	0,56	0,76	-42 bps	69 bps	0 bps	237 bps	60 bps
	German 10 year gvt	3,32	(0,26)	0,12	0,29	0,47	53 bps	34 bps	-54bps	275 bps	39 bps
BONDS	Global Aggregate USD hdg.	610,2	1,7%	0,2%	0,1%	0,3%	4,6%	3,4%	7,1%	-11,2%	-1,4%
	Global Aggregate EUR hdg.	217,3	1,6%	-0,2%	-0,6%	-1,1%	2,5%	1,7%	4,7%	-13,3%	-2,2%
	Global Aggregate CHF hdg.	155,4	1,3%	-0,9%	-1,9%	-3,2%	0,3%	-1,0%	2,5%	-13,7%	-2,5%
	US Treasuries	2423,4	2,4%	0,4%	-0,4%	-0,5%	6,1%	0,6%	4,1%	-12,5%	-2,3%
	US IG Corporates	3509,0	2,2%	-0,2%	-0,9%	-1,0%	7,5%	2,1%	8,5%	-15,8%	-1,0%
	US High Yield	2926,2	0,3%	-1,3%	-0,8%	0,4%	8,2%	8,2%	13,4%	-11,2%	5,3%
	Euro Government	239,6	1,0%	-1,7%	-1,9%	-2,1%	0,3%	2,0%	7,1%	-18,2%	-3,4%
	Euro IG Corporates	264,6	0,8%	-0,8%	-0,4%	-0,5%	2,8%	4,7%	8,2%	-13,6%	-1,0%
	Euro High Yield	498,5	-1,1%	-2,3%	-1,1%	-0,7%	4,6%	9,1%	12,8%	-11,1%	4,2%
	EM USD Aggregate	1383,1	1,3%	-1,0%	-1,0%	-0,3%	10,9%	6,6%	9,1%	-15,3%	-1,7%

Source: Banque Eric Sturdza, 31.10.2026

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