Investment strategy

September 2025

TABLE OF CONTENTS

INTRODUCTION

Letter to Investors - Investment Climate

- Weakening fundamentals in the US contrast with the situation in Europe
- The Fed's dilemma intensifies despite a 0.25% cut in key interest rates
- The effects of Trump's policies on inflation and corporate margins are yet to be seen
- Investor optimism could be dampened by a pause from central banks
- Complacency is once again very high in the equity markets
- Caution is warranted given the high level of uncertainty

The third quarter of 2025 was marked by a pronounced dichotomy between slowing economic fundamentals and the resilience, even optimism, of financial markets. As signs of slowing growth multiplied in the United States, investors seemed to focus on the Fed's anticipated pivot, creating a complex and risky environment. Monetary policy thus remained the main catalyst, relegating fiscal issues and the US Treasury's massive financing needs to the background, but cracks began to appear in the consensus, foreshadowing increased volatility. The Fed's dilemma was therefore the main theme of the quarter, with investors aggressively betting on a first rate cut in September, followed by two more before the end of the year. As expected, it lowered its rates by 0.25% in September, but it could well disappoint investors by not proceeding with the two other cuts expected by the end of the year. The surprise could therefore be that neither the Fed nor the ECB will implement any further cuts in the near future, as, unlike in the United States, the macroeconomic situation in Europe has actually strengthened over the last three months. The economic recovery appears to be on track and is more widely shared across the various national economies, whose correlation has strengthened, a likely sign that the recovery is more uniform and sustainable. In this environment, the ECB will certainly pause in its monetary policy, considering that its rates and price indices are now close to its target.

Recent statements by both central banks have emphasized the need to maintain a policy that ensures inflation returns sustainably to the 2% target, which, in the case of the United States, dashed hopes of another imminent rate cut on October 29th. Probably a sign of investor complacency, this change in perception did not cause any significant turmoil in the markets at the end of the quarter. The political interventionism of the US administration, although a source of persistent volatility, did not ultimately dampen the optimism of the financial markets, which preferred to focus on the Fed's accommodative pivot. Despite the massive increase in tariffs that took effect during the quarter, North American indices reached new record highs. Markets continued to operate on a short-term basis, focused on the prospect of Fed rate cuts as a safety net against the economic slowdown, which was increasingly supported by negative labor market statistics. The potential consequences of the geopolitical events that occurred at the end of the second quarter, notably the recognition of Palestine by a number of countries, had no direct impact, not even on gold prices, which rose on the basis of other factors. Q3 2025 was therefore marked by the resilience of risky assets in an environment where US political and fiscal risks had nevertheless become dominant factors, culminating in a government shutdown beginning on October 1st. The dollar, which had been heavily penalized by the Trump administration's policies until the end of June, also stabilized despite economic risks and the bearish consensus on Fed rates. The DXY index thus posted a slight gain of +0.9% over the period.

On the bond markets, hesitation, logically supported by cautious statements from the Fed and economic statistics pointing to a slowdown, led to a moderate decline in yields, but one that was significantly greater than in other developed regions.

Overall, bond indices rose by +2.03%, bringing the nine-month increase to +6.13%. This positive environment bolstered investor optimism, allowing equity indices to rise further. The quarterly increase of +7.27% brings the year-to-date increase to +17.43%. International real estate was not to be outdone, rising +4.2% and achieving a logical +10.79% between bond and equity returns. Swiss assets lagged behind, posting only very modest quarterly gains of +1.15%, +1.29% and +2.02%, respectively, hit by 39% tariffs and a strong franc, which is affecting the country's economic momentum. Commodities (+4.07%) reflected fears of an economic slowdown, with oil prices fluctuating in line with geopolitical tensions and economic indicators. Gold (+17.38%) continued to benefit from general uncertainty and investors' desire to diversify their reserves away from the dollar, as well as strong momentum that attracted new speculators.

The systemic uncertainty surrounding Trump's policies and tariffs has not yet had its full impact on multinationals, which have been forced to reconfigure their supply chains at great expense, on their margins and earnings, or on inflation. By cutting rates by 0.25%, the Fed has responded to the weakening labor market, but it knows that its monetary policy can only partially offset the confidence shock caused by trade policy. The risks of stagflation are increasing and may weigh on current positive trends. Equity market valuations are historically high, and investors do not seem prepared for the downward revisions to 2026 earnings that are sure to come when the slowdown becomes more apparent. The risk environment is currently high for US indices, while the VIX (fear index) is at its lowest level. We anticipate a return of volatility amid increasingly apparent contradictions between worrying fiscal and trade policies and complacent equity markets that are largely unconcerned by historically high P/E ratios. This environment calls for caution and limiting exposure to risky assets.

Alain Freymond
Associé & CEO
BBGI Group

BIG PICTURE

Main Convictions

- Tariffs and Trump's policies are beginning to show their first effects
- The resilience of the US economy is beginning to give way
- Monetary policies may prove less accommodative than expected
- There is a high risk of disappointment for overly optimistic and exuberant investors

Tariffs and Trump's policies are beginning to show their first effects

The repercussions of the Trump administration's often unpredictable and "chaotic" policies, particularly visible in the commercial and international spheres, are only just beginning to have a noticeable impact at the start of Q4 2025. We believe that this is only the beginning of what will gradually emerge over the coming quarters and will have various impacts in the United States and the rest of the world. In recent months, the world has been facing escalating tensions stemming from the implementation of the "America First" doctrine, which has triggered more or less firm responses from the United States' allies and economic partners and is gradually leading to a reshaping of international trade. Tensions between the United States and China, as well as with the European Union, Canada, Mexico, Brazil, India, and Japan, have reached a new level with the implementation of countermeasures. These frictions are provoking harsh reactions from historically allied countries, which, without further discretion, have already begun to apply their own tariffs and solidify trade alternatives away from the United States.

Economically, the punitive tariffs imposed abruptly in August are beginning to have a direct and increasingly significant impact, while the approved retaliatory measures are now in effect. In recent weeks, inflation in the United States has clearly been fueled by these import taxes (30%). The CPI jumped to +2.9% in September, with widespread increases in consumer goods and industrial inputs. Companies that were initially able to adjust by anticipating their orders are now often unable to absorb these new costs and are beginning to pass them on to their customers, eroding consumer purchasing power. Global supply chains, already under pressure, are now in turmoil, affecting prices and product availability. This palpable uncertainty and erosion of confidence are translating into a drop in consumption and a freeze on investment. Companies are canceling their expansion plans, fearing an all-out trade war. This increases the risk of recession, far beyond the mere expectations of previous quarters in the face of the threat of tariffs alone. Both the manufacturing and service sectors are now in serious trouble. With the approach of the crucial months for retail trade and around two-thirds of GDP, the risks are intensifying. Treasury financing costs have become a critical budget item (more than $1.1 trillion for 2025), wiping out the government's ability to invest or respond to economic shocks.

Over the coming months, we can expect this economic and political instability to worsen and have an even greater impact on economic variables. The US economy is likely to gradually show signs of cracking, as is already evident in the job market, which has seen three months of job losses, while the revision of job creation figures for the most recent annual period shows that around 900,000 fewer jobs were actually created than previously announced. The US economy is therefore just beginning to react to Trump's chaotic policies and is certainly only at the beginning of a trend that is yet to develop. The Fed will have to continue to navigate a narrow path between fighting imported inflation and the need to support an economy disrupted by these structural and chaotic factors inherited from the new administration.

The resilience of the US economy is beginning to give way

After three quarters of major political uncertainty and restrictive monetary policies, the initial resilience of the US economy appears to be cracking and showing increasingly tangible and negative effects at the start of Q4 2025 on economic momentum and the confidence of economic agents. The US economy, long considered "exceptional" for its resilience, is now facing a combination of headwinds that are creating visible cracks in its foundations. Consumer confidence, an essential pillar of growth, has deteriorated significantly. The Conference Board index fell in September to its lowest level since April, weighed down by a gloomier outlook for the labor market and growing anxiety about the cost of living. These frictions are provoking reactions among consumers, particularly low- and middle-income households, which are experiencing a shock to their real income due to the resurgence of inflation. A tangible sign of this distress is that credit card and auto loan defaults have reached levels not seen since the 2008 crisis, now affecting all income brackets.

On the economic front, high borrowing costs and geopolitical volatility are also beginning to have a direct and significant impact. In recent weeks, inflation in the United States has picked up again, with the CPI climbing to +3.3% in September, driven by services and energy, dashing hopes of a rapid return to the Fed's target. Faced with eroding margins, companies have less leeway to absorb costs and are forced to slow hiring, eroding consumer purchasing power. Global supply chains remain under strain. This palpable uncertainty and erosion of confidence are translating into weaker consumption and hesitant investment. Companies are delaying decisions in anticipation of a slowdown. A record number of S&P 500 companies have issued profit warnings for Q3 and are expected to maintain cautious forward guidance for the end of the year and 2026, while credit spreads on corporate debt have widened, betraying investor nervousness about the risk of default.

In September, the labor market showed signs of a major downturn with the loss of 32,000 jobs, while the unemployment rate rose to 4.3%. In addition, wage growth slowed, confirming that employees' bargaining power is rapidly eroding. In the coming months, we can expect this slowdown to intensify and have an increasing impact on key economic and financial variables. The manufacturing sector, as indicated by the ISM at 49.1, is already contracting, and the slowdown has spread sharply to services. The ISM services index has fallen close to the stagnation threshold of 50.0, but its crucial new orders component has entered contraction territory (49.9), a very negative omen for future activity, which is sure to fuel renewed fears about consumption and investment. The risks of recession are likely to intensify as investors realize that these factors will have a negative impact on corporate earnings growth. The Fed's 0.25% rate cut will have no impact on future statistics, as the economy and households will not react to this first cut in nine months, especially since it was accompanied by warnings about the continuing risks of a resurgence of inflation. We believe that the resilience of the economy is being called into question by these factors, which point instead to a risk of stagflation and recession.

Monetary policies may prove less accommodative than expected

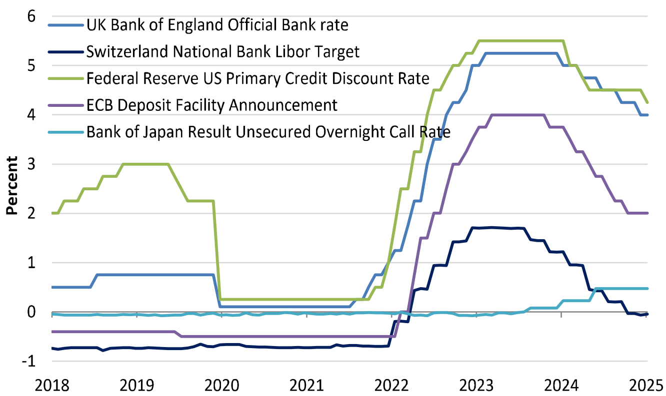
A huge gap seems to be widening between the optimism of the financial markets and the increasingly cautious stance of central banks. While investors, galvanized by recent rate cuts, continue to bet heavily on accelerated monetary easing, underlying economic data and official communications suggest that the hardest part is only just beginning. A sharp revision of the outlook could catch markets off guard, whose exuberance seems disconnected from fundamental economic reality. The Fed has adjusted its policy in response to employment figures, but it still considers itself to be playing its trump card in the face of stubborn inflation. In the US, the equity market seems rather euphoric to us, despite the particularly uncertain economic situation and the Fed's fears of a rise in inflation. After September's rate cut, which brought the target range down to 4.00%-4.25%, Fed Funds futures are pricing in at least one, if not two, additional rate cuts before the end of the year with a probability of over 70%. This optimism is based on the idea that the slowdown in employment and the decline in the overall CPI will be enough to reassure the Federal Reserve. However, the Fed is looking beyond these surface figures and focusing on much more worrying indicators. The real issue is no longer headline inflation, but "supercore" inflation (services excluding housing and energy), which remains firmly anchored due to strong wage growth. The Atlanta Fed's barometer of wage growth, although declining, still stands above 5%, a level deemed incompatible with a sustained return of inflation to the 2% target. In addition, the core PCE inflation index, the Fed's preferred measure, remains stuck at a high level of 3.5%. Fed officials, such as Vice Chairman Philip Jefferson on October 3rd, continue to hammer home the message that inflationary risks remain and that policy must remain "restrictive" for some time. The Fed fears above all repeating the mistakes of the 1970s by declaring victory too soon, and prefers to risk a more pronounced economic slowdown rather than see inflation take root. The probability of a long pause is therefore much higher than the market anticipates. In Europe, the situation is radically different but leads to a similar conclusion: the end of the easing cycle by 2025. After keeping its rates unchanged, the European Central Bank finds itself in a comfortable position that does not justify any new action in the short term. Inflation in the eurozone, at 2.2% in September, has reached its target, allowing the bank to take a break. This is all the more justified as the economic recovery continues. The eurozone Composite PMI index rose to 52.5 in September, signaling solid expansion. However, this growth is two-speed: it is driven by the exceptional dynamism of the services sector, particularly in southern countries such as Spain and Italy, while the manufacturing sector, particularly in Germany, remains in difficulty. Nevertheless, this positive momentum in services is supporting the labor market (unemployment at a historic low of 6.3%) and domestic demand. Given these indicators, the ECB has no reason to take the risk of reigniting inflation with a further rate cut. It will therefore remain on the sidelines, disappointing the hopes of those who were betting on continued easing. In such a context, monetary policies could prove less accommodative than expected.

There is a high risk of disappointment for overly optimistic and exuberant investors

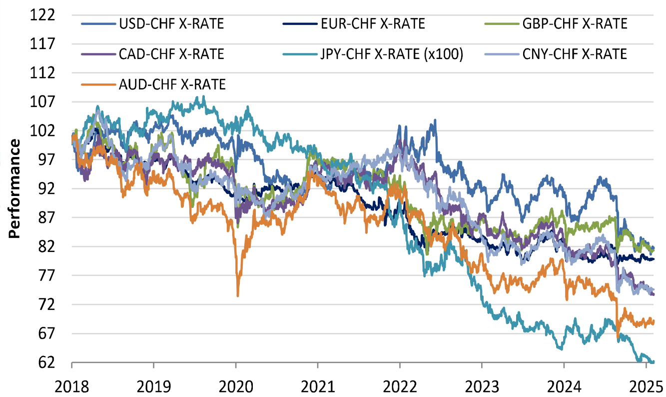
The gap between investor expectations and monetary reality has now reached a critical point. Equity markets, whose valuations, particularly in the technology sector, are stretched, are entirely based on the assumption of increasingly accommodative financial conditions and the absence of recession. If the Fed embarks on another pause and the ECB stands firm, the reassessment of interest rate prospects could be violent. In the United States, the scenario of stagflation and downward adjustment of corporate margins and profits would have significant consequences. The first domino to fall would be the particularly overvalued equity market in the United States. Earnings expectations, which are often extreme in a context of economic slowdown but supported by hopes of rate cuts, are likely to adjust, compressing price-to-earnings ratios.

Investors, who have underestimated the determination of central banks to ensure a total victory over inflation, could be forced to rush to unwind their optimistic positions, creating a significant correction and a sharp rise in volatility (VIX) in the coming months. The current exuberance in the markets is based on a risky bet, and the wake-up call could be brutal. The season for publishing corporate results and CEO and CFO forecasts is about to begin in a much more uncertain environment. It is unlikely to reveal any significant opportunities for profit growth, as we expect much more cautious messages based on the lack of economic visibility. We believe investor optimism is excessive in this context. The VIX (volatility index), often referred to as the "fear index," is at relatively low levels, suggesting a low perception of future risk. Put/call ratios for the S&P 500 index are also at levels suggesting low demand for protection against a potential decline. Positive surprises are difficult to imagine in an increasingly tense political environment. We suggest considering investment strategies that are less exposed to risky assets as uncertainty resurfaces and is likely to increase significantly in the short term.

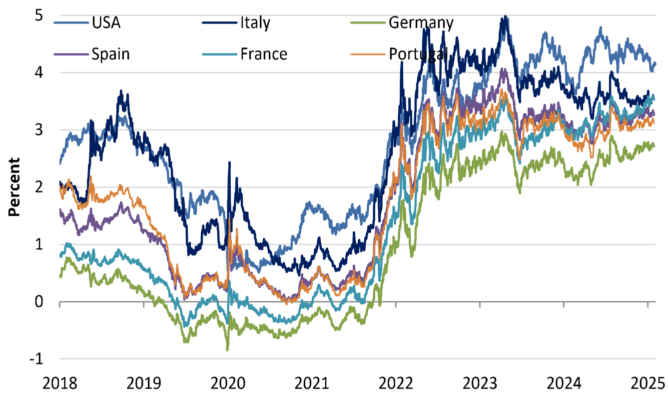
Policy rates (EUR, CHF, GBP, USD, JPY)



7 main currencies against CHF (base 100)



10-year government rates



Sources graphiques: Bloomberg/BBGI Group

MACROECONOMIC SCENARIO

MACROECONOMIC SCENARIO

Global Outlook

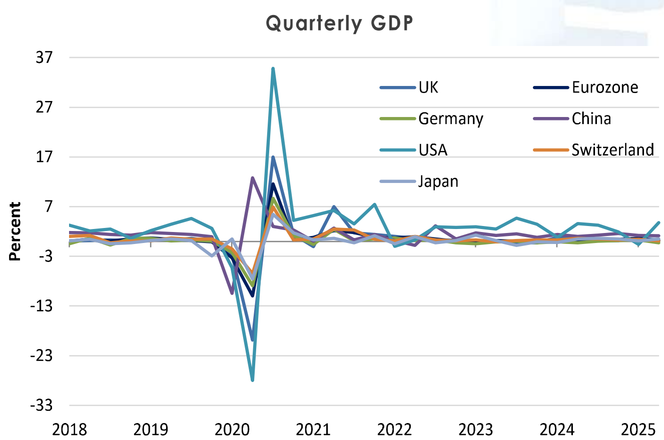
- More uncertain outlook for global growth
- End of US resilience in sight
- European recovery gaining momentum
- Stagnation likely in Switzerland in Q4
- UK economy to remain weak
- Slowdown likely in Japan

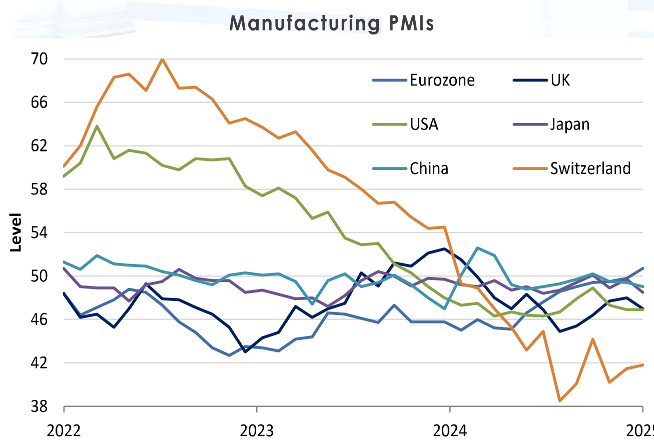
More uncertain outlook for global growth

At the end of September 2025, the global economy appears stable on the surface, masking deep divergences between regions and increased risks. Overall, while global trade grew in value terms in the first half of the year, volumes stagnated, reflecting a much deeper malaise in demand. US imports are still holding up, but demand in Europe and China is a major drag on international trade growth. Overall sentiment is still affected by the weakening of supply chains in the context of the implementation in August of new US customs duties. Uncertainty has not disappeared following the tariff negotiations, with US companies and those trading with the US facing considerable difficulties posed by customs duties, affecting both their margins and their supply chains.T he rise in uncertainty and these new challenges are affecting international relations, and the WTO now forecasts only a very slight increase in the volume of world trade in goods of +0.9% for 2025. Rising uncertainty and these new challenges are affecting international relations, and the WTO now forecasts only a very slight increase in global merchandise trade volume of +0.9% for 2025. In the short term, the outlook is dominated by the dilemma facing central banks as inflation in services proves more persistent than expected. The maintenance of restrictive financial conditions is weighing on investment and consumption. Trade imbalances (US deficit, Chinese surpluses) persist, fueling friction. Global growth faces a very mixed outlook. Financial institutions paint a mixed picture: the World Bank maintains a cautious forecast of +2.3% for 2025, sounding the alarm for developing countries, while the OECD is more optimistic, forecasting growth of +3.2%, driven by the strength of the United States, and the IMF anticipates an increase of +3.0%. For Q4 2025, we believe that the risks of a global slowdown relative to these estimates are mainly driven by the likely slowdown in the US economy. We project global output to grow by +3% year-on-year as of December 31st, 2025, with risks to this forecast still skewed to the downside.

End of US resilience in sight

At the start of Q4, a cautious consensus is emerging among leading forecasters following a technical rebound in Q2 and signs of cooling in Q3. Expectations for the final months of the year point overwhelmingly toward a slowdown in the US economy. Although the analyses of leading strategists vary in terms of the intensity of the expected slowdown, they agree on the sources of this deceleration. The consensus now is that a slowdown is likely. For our part, we believe that the deceleration could be quite sharp and expect moderate growth of between 0% and +1%. The probability of recession has decreased, but the delayed impact of the Fed's monetary tightening will weigh on activity. The likelihood of a recession has decreased, but the delayed impact of the Fed's monetary tightening will weigh on activity. The expected slowdown in consumer spending, due to the depletion of accumulated excess savings and the slowdown in real income growth, is likely to materialize more clearly. Labor market statistics suggest that the economy has not created any jobs for three months, while the shutdown that is now beginning, if it takes a similar form to that of 2019, could weigh heavily on statistics and further dampen household morale. Nor should we underestimate the future effects of tight credit conditions, which are affecting not only business investment but also the cost of consumer credit (credit cards, car loans), which is likely to curb future spending. In this regard, we are seeing an increase in consumer credit default rates and greater reliance on debt to maintain living standards. This points to an inevitable contraction in discretionary spending in the coming months. While the resilience of the US economy has been surprising to date, Q4 will mark a change in regime.





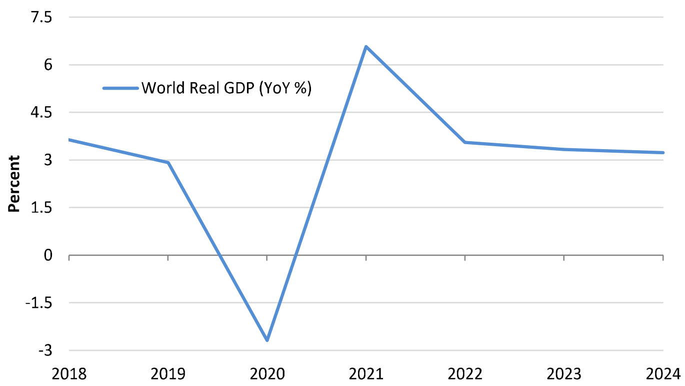
A positive end to 2025 in Europe

The dynamic observed in the third quarter (+0.4%) is expected to continue in the final months of the year, pointing to growth for Q4 2025 that we estimate at +0.3%. Although slightly slower, this pace reflects the resilience of the eurozone economy in the face of an uncertain global environment. If this forecast is confirmed, GDP growth for 2025 as a whole would be +1.2%, exceeding the latest projections by the ECB and the European Commission. The main driver of this performance remains domestic demand and, more specifically, household consumption. The stabilization of inflation below 2% and the strength of the labor market continue to support purchasing power and confidence, a decisive factor that should stimulate spending during the holiday season. Business investment, although still cautious, should continue its positive momentum from Q3, benefiting from financing conditions that remain accommodative. However, foreign trade remains the main area of concern. Trade tensions with the United States persist and have not disappeared with the announcement of tariffs set at 15%. These new taxes will weigh on export prospects in the coming quarters. Overall exports from the eurozone and growth will therefore depend on the ability of European companies to consolidate their market share with other international partners. At the national level, Germany could see slightly slower growth than in the previous quarter, but its industrial sector is confirming its gradual recovery. France, meanwhile, should maintain a stable pace, still buoyed by strong consumer spending. In the short term, the eurozone therefore seems on track to end the year on a more solid footing than anticipated, even if geopolitical risks call for caution and restraint in terms of excessive optimism for 2026.

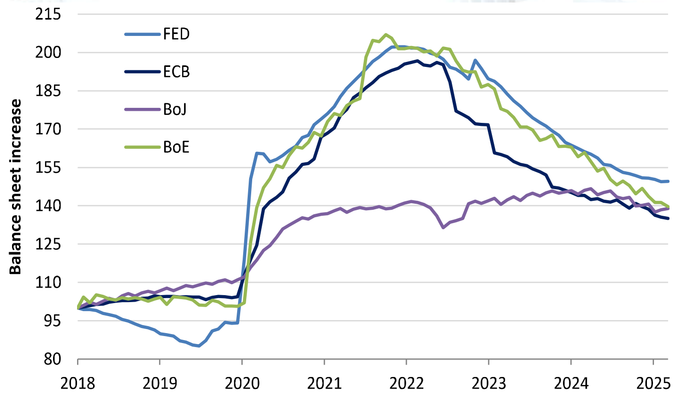
Stagnation likely in Switzerland in Q4

The outlook for the second half of 2025 remains marked by considerable uncertainty and a high risk of stagnation, particularly for the third quarter. The fact that all traditional growth drivers posted low growth rates in Q2 is a warning sign. The complete dissipation of the anticipation effects that boosted exports in Q1 will weigh heavily on Q3 performance. The industrial sector, particularly the machinery, electrical equipment, and metals (MEM) industry, continues to face sluggish external demand, as evidenced by a manufacturing PMI that remained below 50 for the sixth consecutive month in September (47.8). Order books, at 45.2 points, are at a historically low level, which does not bode well for any recovery in investment in the short term. As a result, GDP growth in Q3 and Q4 will rely almost exclusively on the resilience of the services sector (PMI at 52.5) and private consumption. However, as seen previously, consumption lacks momentum. The wage increases expected for 2026, in the order of 2.0%, should only generate real growth in purchasing power of +0.4% after inflation, a marginal gain that is insufficient to significantly stimulate spending. In this context, growth forecasts for Q3 fluctuate within a very narrow range, between 0% and +0.2%. Stagnation is a perfectly plausible scenario. A slight recovery is hoped for in the fourth quarter, traditionally supported by end-of-year spending, but it will remain highly dependent on household confidence and economic developments in Europe. The consensus among economists and the forecasts of institutions such as KOF and SECO therefore converge towards growth for the whole of 2025 of around +1.1%, well below the +2.1% growth recorded in 2023 and illustrating a year of near stagnation for the Swiss economy.

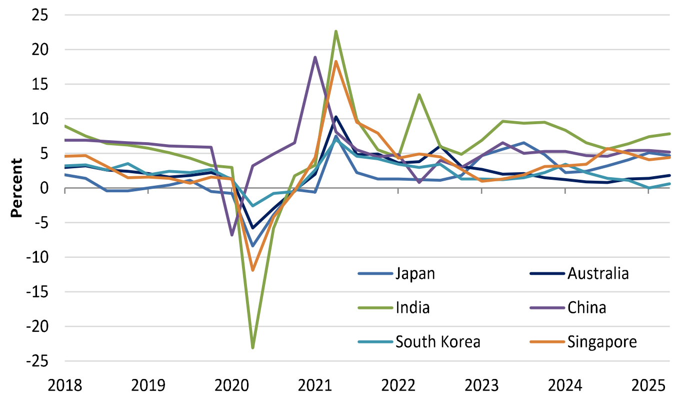
Real growth of the global economy



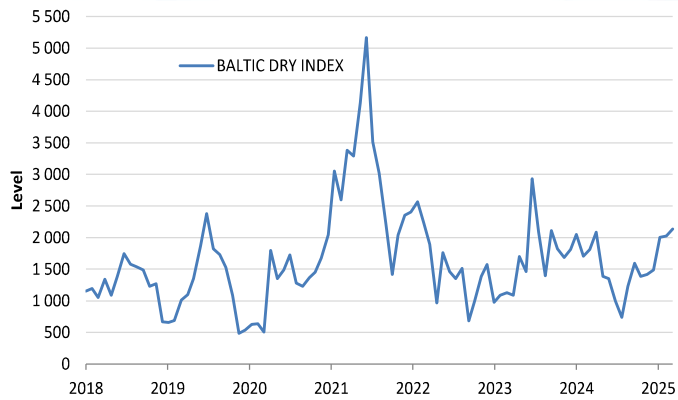
Global liquidity



Growth rates of Asian economies (GDP)



Baltic Dry Index



Sources graphiques: Bloomberg/BBGI Group

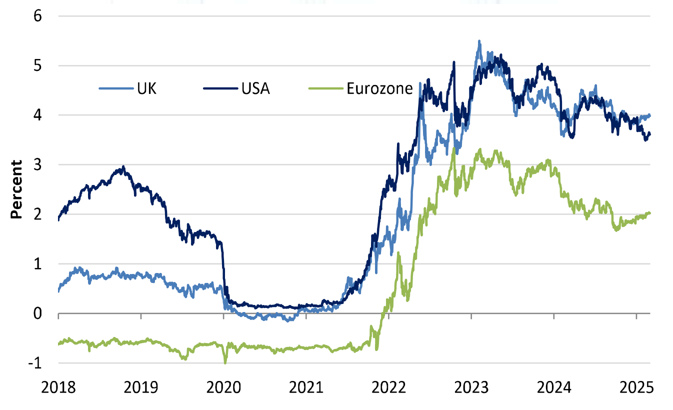
The British economy is set to run out of steam

The economy enters the final quarter of 2025 in a state of near stagnation, oscillating between signs of resilience and persistent headwinds. Recent data paint a picture of sluggish growth, stubborn inflation, and a labor market showing signs of cooling, pointing to a subdued outlook for the end of the year, with a possible contraction in consumption. On the positive side, the service sector, the cornerstone of the economy, has maintained slight growth, and the unemployment rate, although up slightly to 4.7%, remains historically low. In addition, wage growth, although slowing, continues to support household purchasing power, which households are not taking advantage of to increase consumption. On the other hand, the negative indicators are notable. GDP growth stagnated in July after a stronger performance in Q2. Inflation, at +3.8% in July and August, remains well above the BoE's target, eroding household and business confidence. Industrial production declined and the trade deficit widened, highlighting export difficulties in a tense international environment, despite the agreement reached with the United States, which is less restrictive than for EU countries. The main strength of the British economy lies in the vigor of its services sector, particularly finance and technology. The business investment environment was robust at the start of the year, which is also an asset. However, structural weaknesses are weighing on overall performance. Persistently low productivity, heavy dependence on imports, and significant regional economic disparities are holding back a more vigorous and widespread recovery. The main risk for the last quarter remains inflation, which could force the BoE to maintain a restrictive monetary policy for longer than expected, weighing on investment and consumption. Global geopolitical uncertainties and volatile energy prices also pose significant threats. Nevertheless, opportunities do exist. A faster-than-expected slowdown in inflation could boost purchasing power and stimulate domestic demand. In addition, targeted investments in growth sectors such as green technologies and artificial intelligence could lay the foundations for stronger and more sustainable future growth.

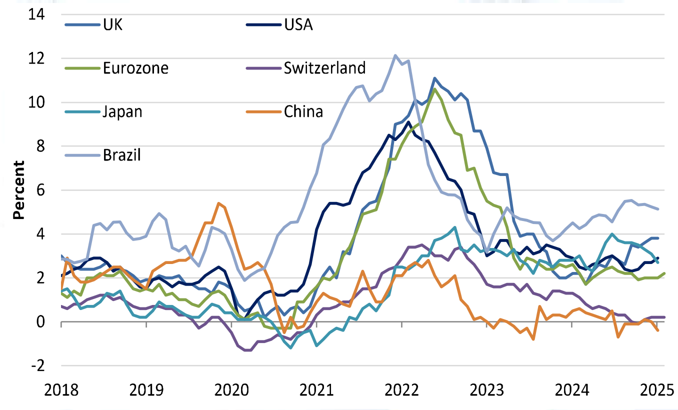
Slowdown likely until the end of the year

After a surprisingly robust second quarter, Japanese growth is expected to slow. The exceptional performance in April-June, revised upward to +2.2% on an annualized basis, was largely driven by stronger-than-expected private consumption. However, the consensus for the July-September period is for a slowdown, as consumption momentum struggles to offset headwinds, both domestic and international. Recently released economic data for Q3 paint a mixed picture, with elements that both corroborate and contradict expectations of a slowdown. The main positive surprise remains the strength of domestic demand, with household consumption remaining a pillar of support. Real wage growth, which turned positive after nearly two years of decline, is supporting purchasing power, a dynamic resulting from historic wage increases negotiated in the spring and fiscal support measures. In addition, the service sector continued to grow, indicating that domestic activity remains well oriented. Conversely, manufacturing output is declining, with the PMI index entering contraction territory, signaling a deterioration in production and new orders. This sector is particularly sensitive to the slowdown in global demand. Businesses also remain cautious; investment is expected to remain moderate in the face of political and trade uncertainty and rising costs. Finally, the slight easing of core inflation, while positive for consumers, could be interpreted as a sign of cooling overall demand. However, several factors are supporting activity. Domestically, wage growth is the main driver, materializing a wage-price spiral that is considered more virtuous and stimulates consumption. Despite widespread caution, targeted investments in digitalization, the ecological transition, and technologies aimed at alleviating labor shortages remain dynamic, often aided by public subsidies. Monetary policy, although in the process of normalization, remains accommodative. On the international stage, the return of foreign capital, attracted by valuations deemed reasonable, governance reforms, and the persistent weakness of the yen, is supporting exporters' profits and providing significant support.

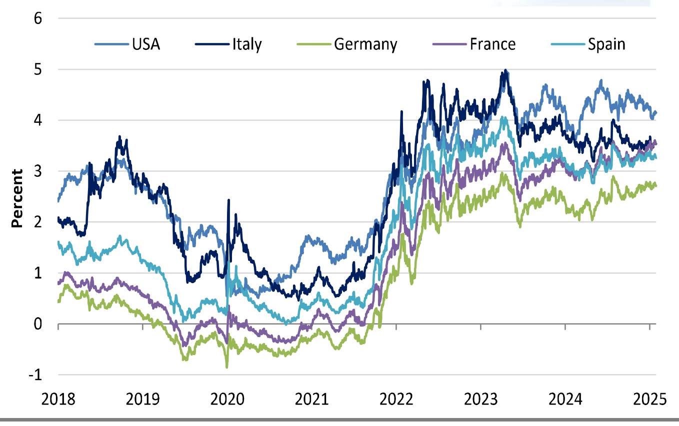
2-year government rates



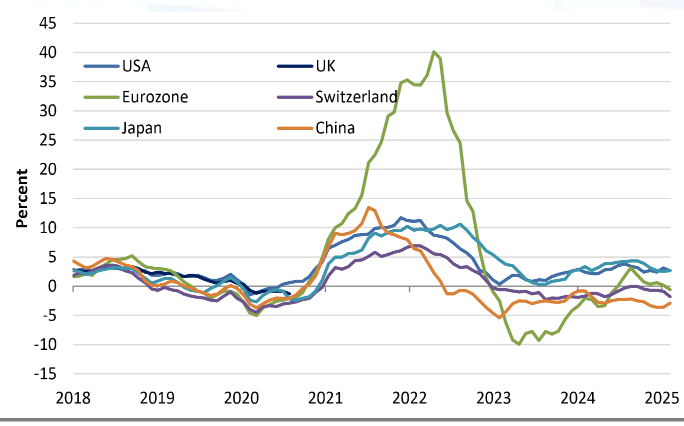
Inflation - CPI indices



10-year government rates



Inflation - PPI indices



Sources graphiques: Bloomberg/BBGI Group