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Investments - Flash

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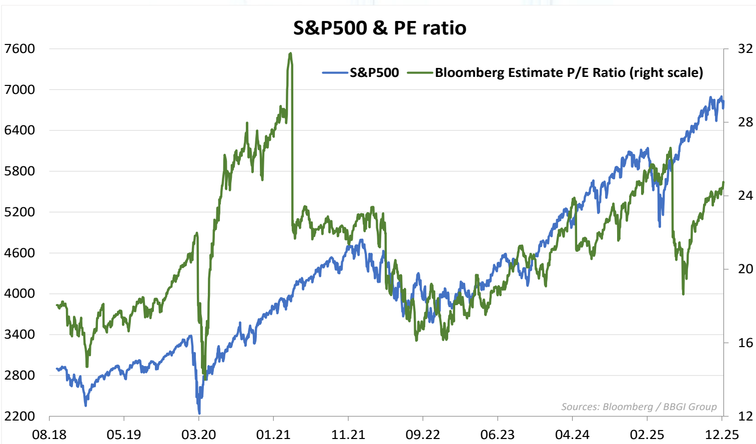
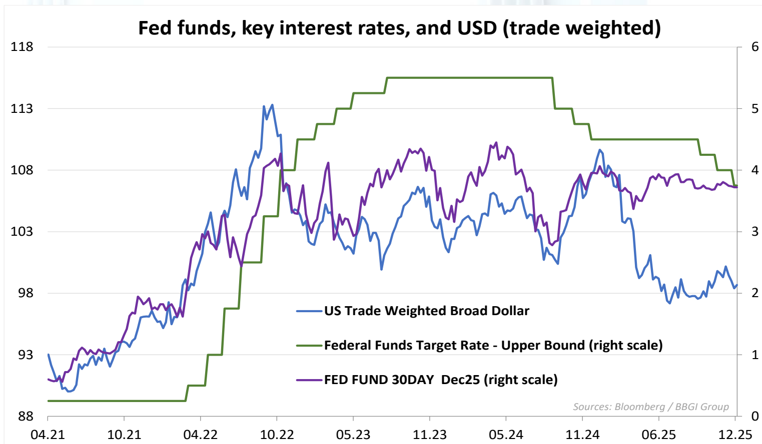
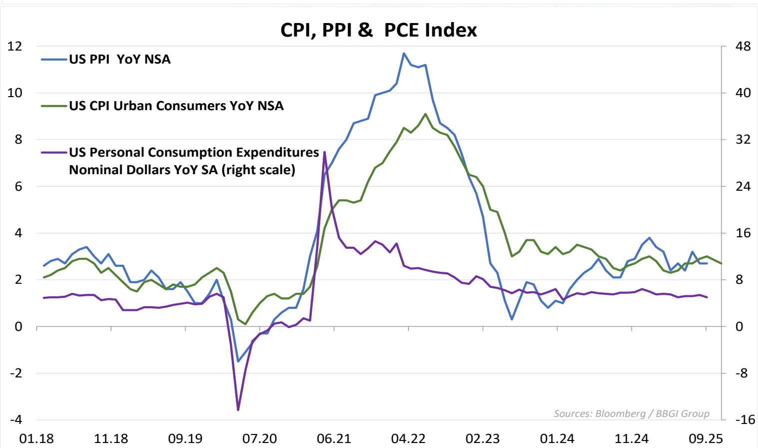
DEFENSIVE POSITIONING IN US STOCKS IN EARLY 2026

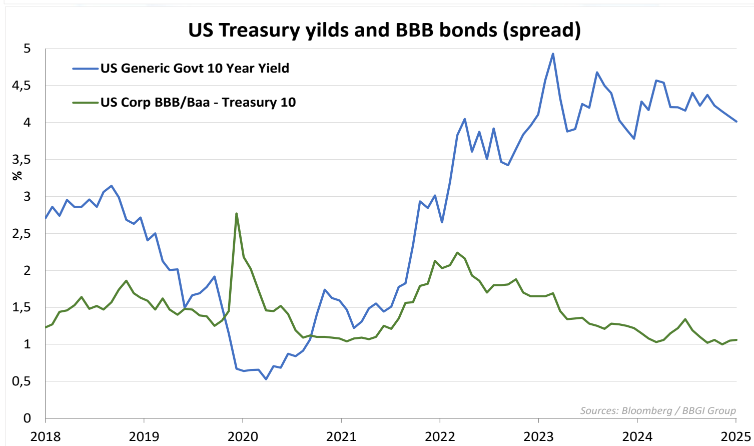
Expected rate cuts and high valuations

Equity markets will end the year barely higher than their late September levels, but against a backdrop of significant quarterly volatility and uncertainty surrounding the risks of a slowdown and a rebound in inflation in Q1 2026. The prospects for rate cuts are now extremely slim and widely anticipated, while economic indicators are increasingly flashing orange. Q4 growth will certainly be positive, but destabilizing factors for Q1 2026 are very much present. The effects of tariffs may now have a more severe impact on corporate margins by putting pressure on costs and earnings. This situation is all the more fragile given that valuations are historically stretched. With price/earnings (P/E) ratios for the S&P 500 above 25x, well above historical averages, the market leaves no room for disappointment. Indeed, there is no safety margin to absorb any unpleasant surprises ahead. Expectations for 2026 seem to ignore these likely headwinds. A longer-than-anticipated pause by the Fed or tougher rhetoric could trigger a sharp reassessment of risks and profit-taking. The current risk/return ratio for equities therefore appears particularly unfavorable in the short term and conducive to a more defensive positioning.









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