The Monthly Letter

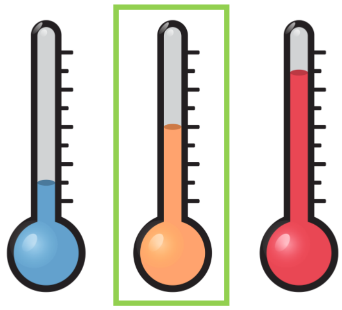
TACTICAL SITUATION REPORT

September 2026

Global landscape

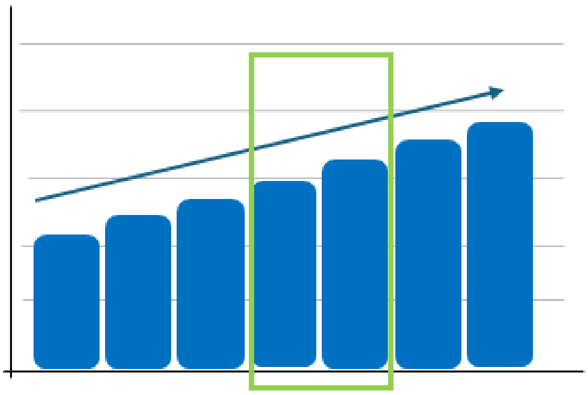
Global framework conditions

Inflation in the next 6 months



Stance: above central banks' targets.
Trend: Accelerating

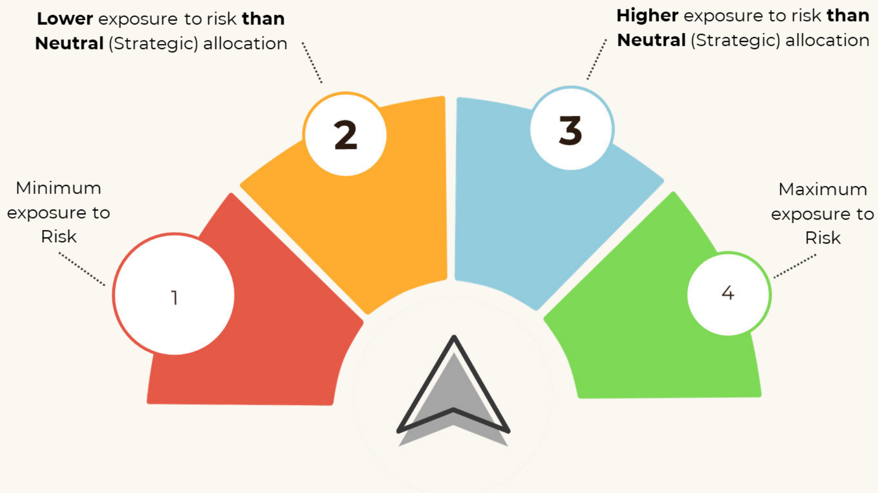
Economic growth in the next 6 months



Stance: below LT potential
Trend: stable

Global view

Risk budget
3m investment horizon



Global landscape

Macro - Cyclical outlook

In 2026, nominal GDP will decelerate, mainly due to a slow-down in price growth. The blockade of the Strait of Hormuz is unlikely to derail the global economy, as the first US-Iran MOU provided relief for supply chains and sensitive Asian customers. Global financial conditions remain accommodative despite the recent stickiness in inflation and rise in long-term interest rate. In 2027, real growth is expected to pick up slightly. Decoupled China is a - very - notable exception.

- Resilient global nominal growth will gradually decelerate
- Energy stockpiles and major supply chains remain under strain

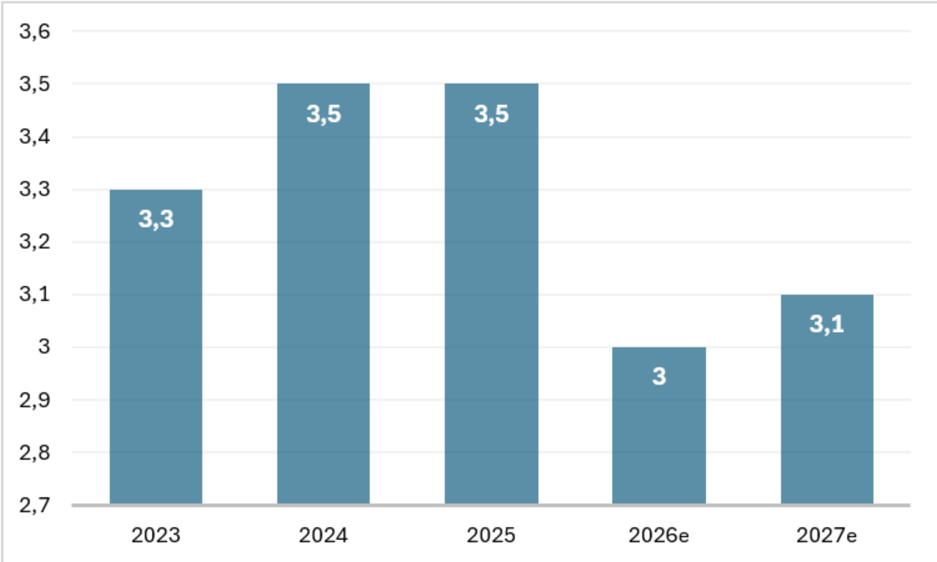


Chart. Global nominal growth

In the next 12 months, US and UK will exceed 5%, followed by Canada, Japan and Germany (3 to 4,5%). China should approach 6%. The notable change is that nominal growth is being driven by a gradual rise in prices and positive inflation.

- Reflation cycle, though weakening, is still in force

Chart. Lower US fiscal impulse

United States — fiscal reference points (2024-2027e)

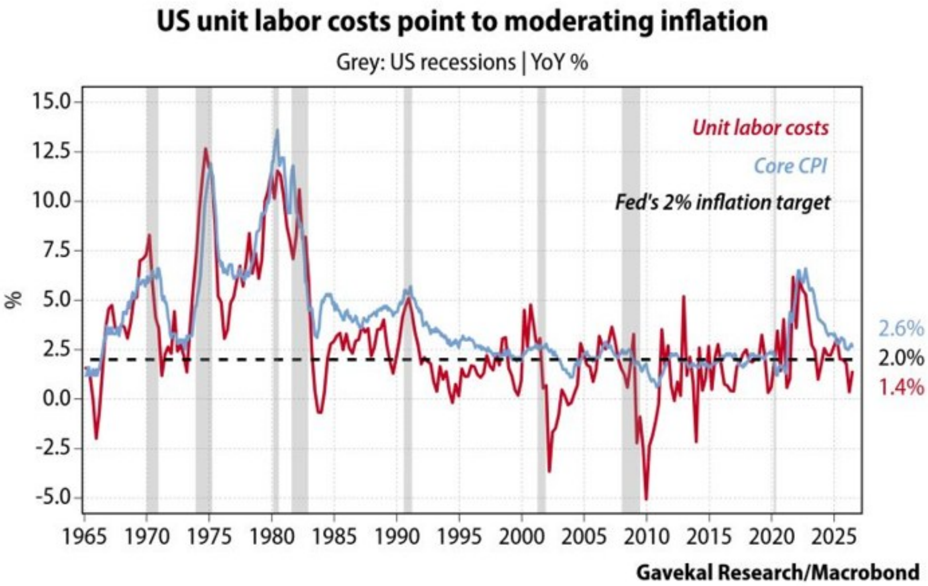
Fiscal year	Federal deficit	Fiscal-impulse interpretation
2024	About 6.4% of GDP	Very high deficit outside recession; fiscal support remains material.
2025	About 5.8% of GDP	Modest apparent tightening; temporary shutdown effect.
2026e	5.8% of GDP ($1.9tn)	Reconciliation-law support partly offset by tariffs and immigration curbs.
2027e	About 5.6-6.0% of GDP	Deficit remains high, but the fiscal impulse is smaller.

Sources: CBO, Budget and Economic Outlook, February 2026 | e = estimate

US fiscal support is gradually waning. Mid-term elections and the reconciliation process add downside risks to this benign scenario.
Japan reflation is coming to an end, while China is stepping up reliquefication.

- US remains the cardinal factor of global growth

Chart. No wage spiral in the US

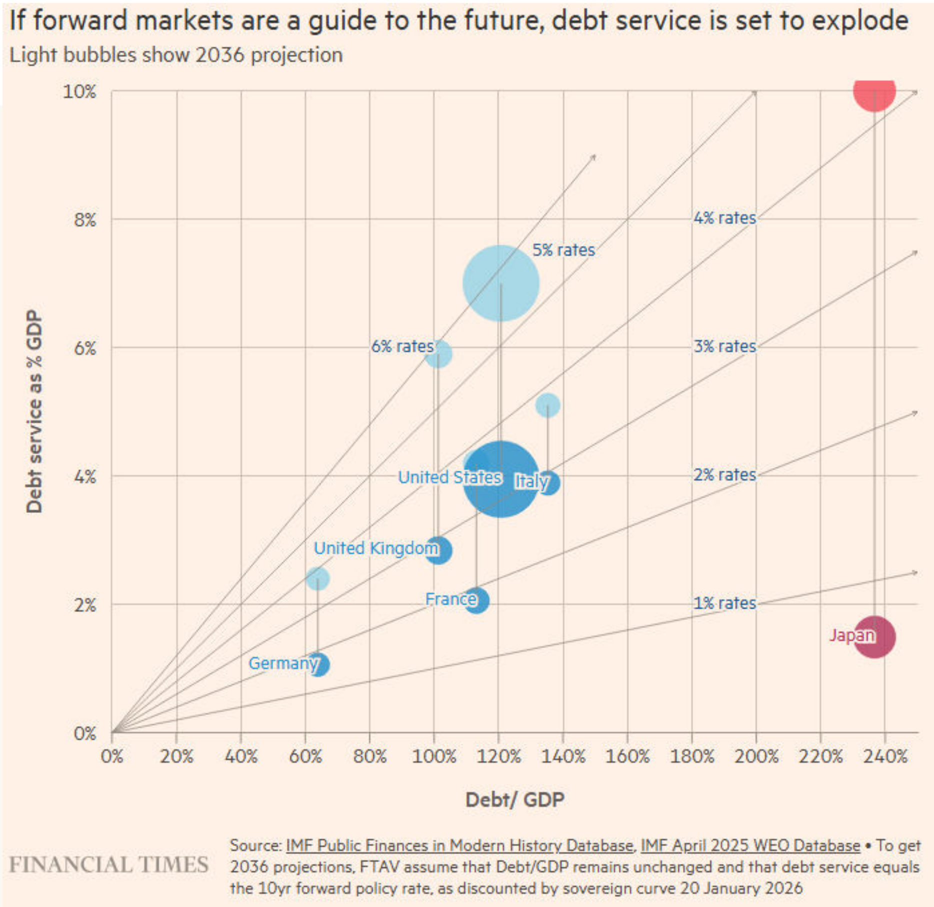


Short term, expect a positive base effect from customs duties (vs 2025), US government refunds (curbing companies' enthusiasm for raising prices). More, Trump's latest protectionist initiatives may well be blocked.

But risks of a food crisis from Q4 are elevated.

- Inflation is not a cause for *immediate* concern

Chart. Key macro issue is debt (service)



Japan and the US have growing pain to refinance their debt. Even more so in the context of growing capital demand for AI capex (crowding out effect).

Both the Fed and the BoJ will tread a very delicate path, as maintaining a benign status quo is facing growing headwinds from bond investors.

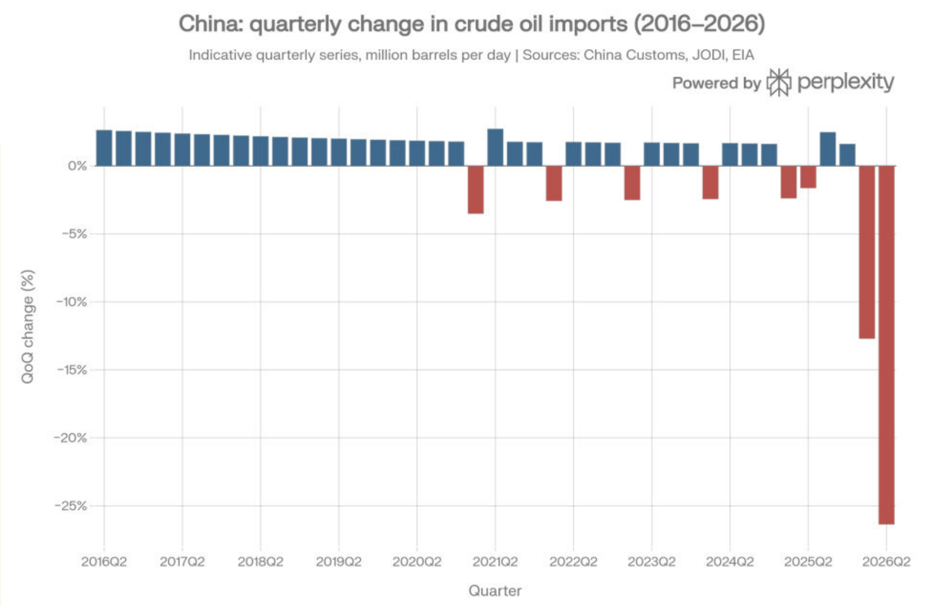
Geopolitics

The major shift in the balance of power between the superpowers has gathered pace since the start of Trump's second term in office. The US's standing has been undermined.

Counterintuitively, China emerged relatively unscathed for now from the conflict in the Middle East. By drawing on its reserves and reducing its oil imports, it has avoided the price surge feared by Trump. It has also helped other major Asian countries and bolstered its image.

- The United States is weakened both at home and abroad
- Conversely, China's influence has continued to grow

Chart. Energy: China strategic view



China management of its oil reserves and imports proved highly flexible. China had built up a considerable buffer during periods when crude oil was cheaper: estimates suggest around 1.25 billion barrels at the start of May, or even 1.5 billion in the first quarter

- External purchases fell more sharply than domestic market volumes

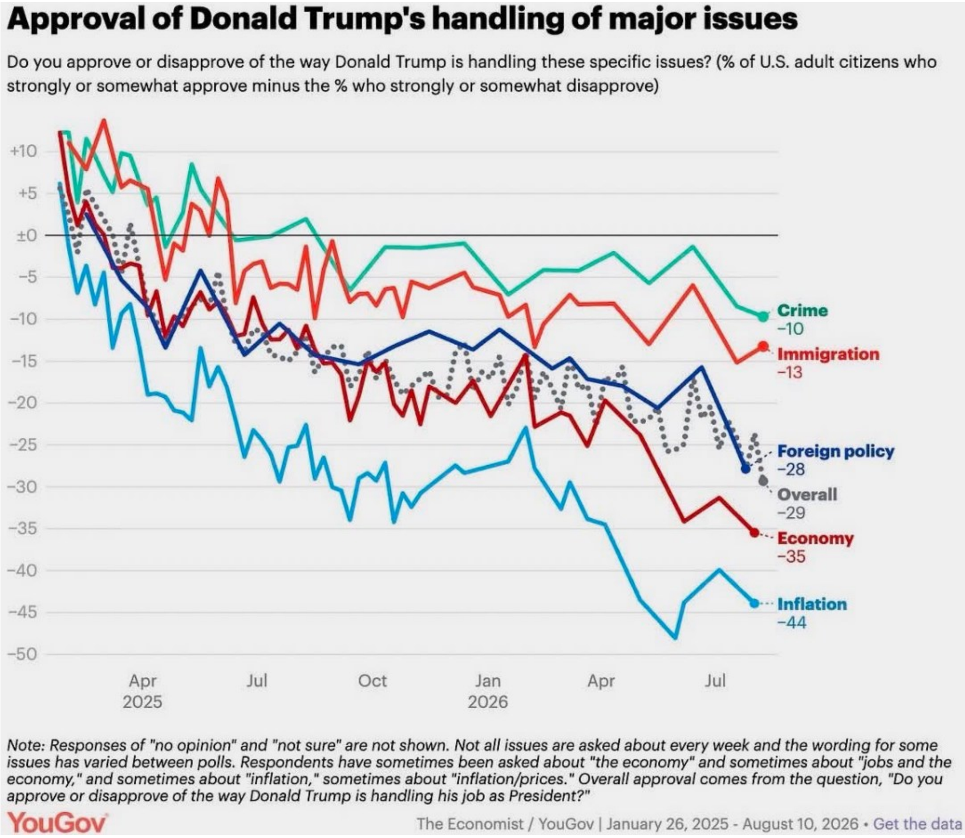


Chart. Approval of D Trump of major issues

The US entry into the war coincides with a slump in Trump's approval ratings, especially economy, foreign policy and inflation (-15; -30).

This raises fears that the mid-term elections could be severely disrupted or contested.

Chart. US sees steepest decline out of all 193 nation brands in Global Soft Power Index 2026

The US retains its top ranking but has declined in all soft power metrics except familiarity due to the 'Trump Effect'. China has overtaken the US for reputation for the first time and is now second. The UK has fallen to its lowest ever ranking, overtaken by Japan, whilst Germany and France also face weakening perceptions. Japan, Switzerland, Italy, the UAE and South Korea show soft power resilience through strategic alignment and cultural engagement.

Global Liquidity

Global liquidity has been weakening for months. Liquidity is gradually being pulled from financial markets into the real economy as activity and inflationary pressures increase. It is also fuelling volatility in the sovereign bond market. Indeed, the steady decline of the MOVE index in 2025 from 135 to 55 has been decisively reversed in 2026.

- The business cycle is expected to continue to benefit from past liquidity stimulus for a few more quarters
- By contrast, the financial markets are likely to be hit more quickly

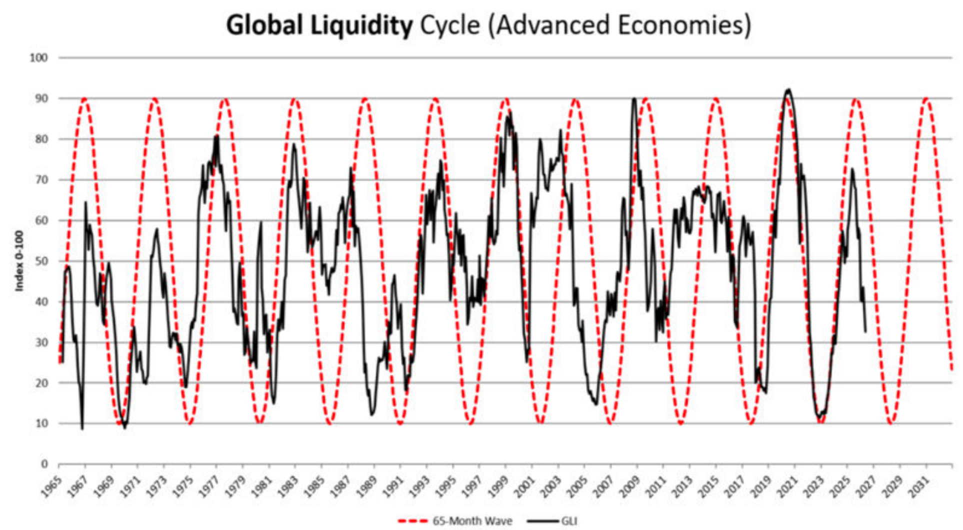


Chart. GLI global indicator

According to GLI:

¨the July data show US Liquidity slid again to an index of 31.6, and liquidity conditions are now tighter than Japan at 38.5.
Eurozone Liquidity is closely following the US cycle. It fell to 37.6 at end-July.

China picked up slightly to 45.1, helped by PBoC support (index 55.1). In contrast, Emerging Asian Liquidity remained high at an index of 75.9, and UK Liquidity jumped again to a sky-high 80,5.

Chart. Liquidity and business cycle: so far so good

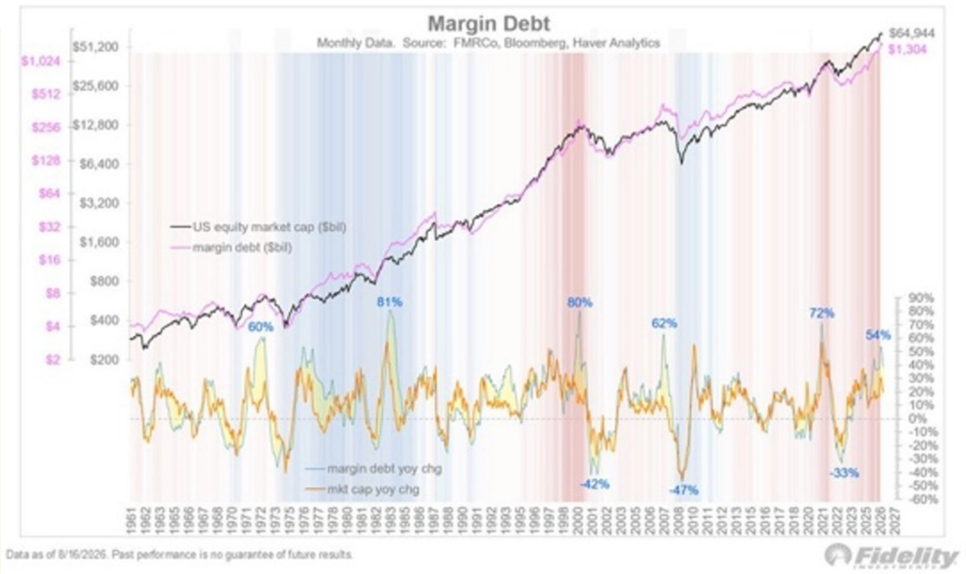
Ample global liquidity injections that prevailed from mid-2023 to late 2025 will continue to support the business cycle in the short term.

- But from mid-2027, a different regime, more complicated, is likely to take place.

Market sentiment / technicals

Gradually shifting from speculation mode to a more hectic regime.

Chart. Private investors debt has skyrocketed

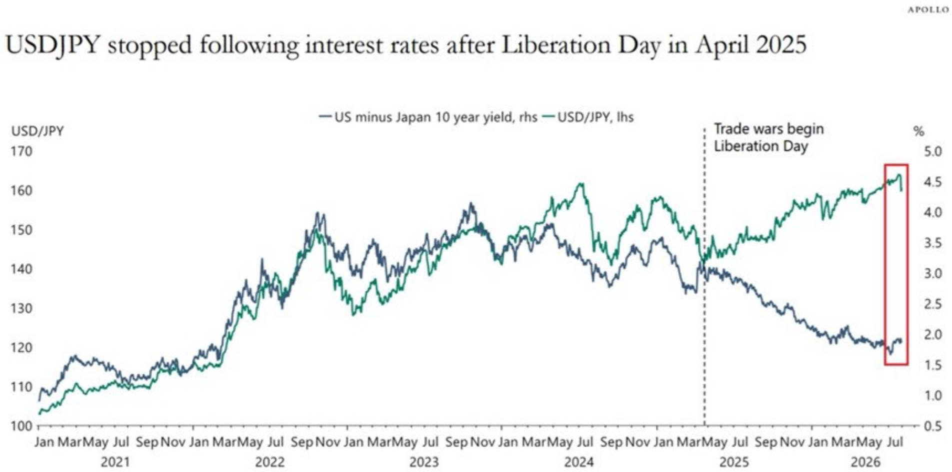


Considering recent bursts of equity markets' volatility, the growth rate in margin debt is likely to further decelerate.

Investor sentiment remains high, though below the peaks seen in 2000, 2007 and 2021.

- The speculative mindset of retail investors is still in force

Chart. Unwind of Yen carry trade ?



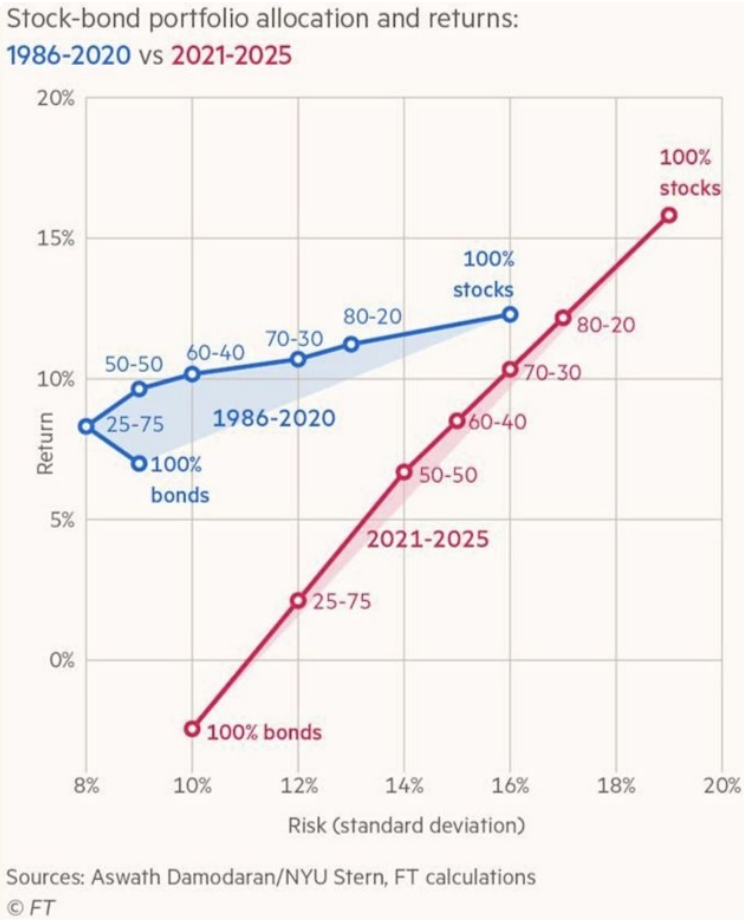
US and Japan definitely need to cut spending and deficit. However, fiscal discipline would result in weaker demand and the potential for a recession… Unlikely.

Status quo is no longer a viable option for the Bank of Japan (BoJ), as imported inflation would result in a weaker yen and ultimately spell more aggressive policy rate action.

- The risk of a sharp yen carry-trade unwinds and a global shift towards risk aversion is rising

Tactical allocation - 3m view

Chart. Bonds have lost their hedging power since pandemic / inflation resurgence



Odds of a more complicated yearend due to more adverse liquidity / macro / (geo)-politics are slowly rising. But a confluence of solid supports will prevail short term: hyperactive financial engineering by the US administration / Bessent, unbridled financial deregulation, weakish USD, buoyant US investment banks ahead of large AI IPOs, and solid earnings.

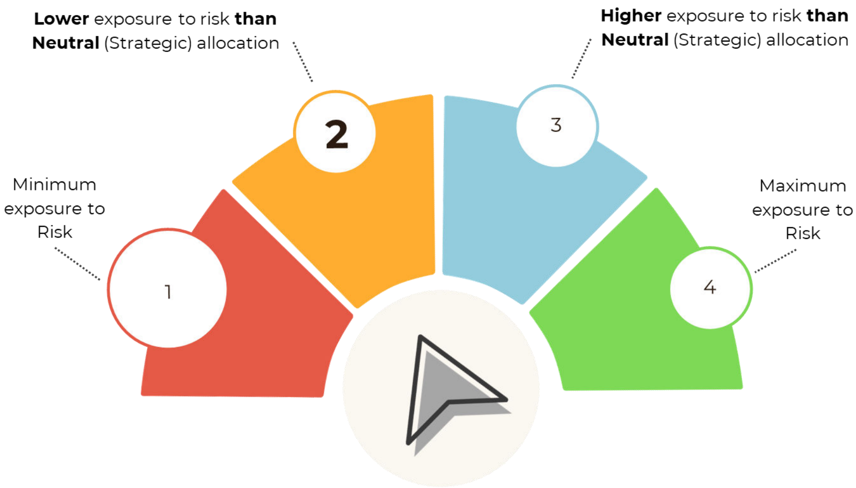
We are running out of ways to avoid fiscal responsibility.

- *We remain fully invested in terms of risky assets*
- *To protect against unexpected inflation, investors need above-average exposure to TIPS, commodities or businesses with genuine pricing power*

Currencies

Risk budget
3m investment horizon

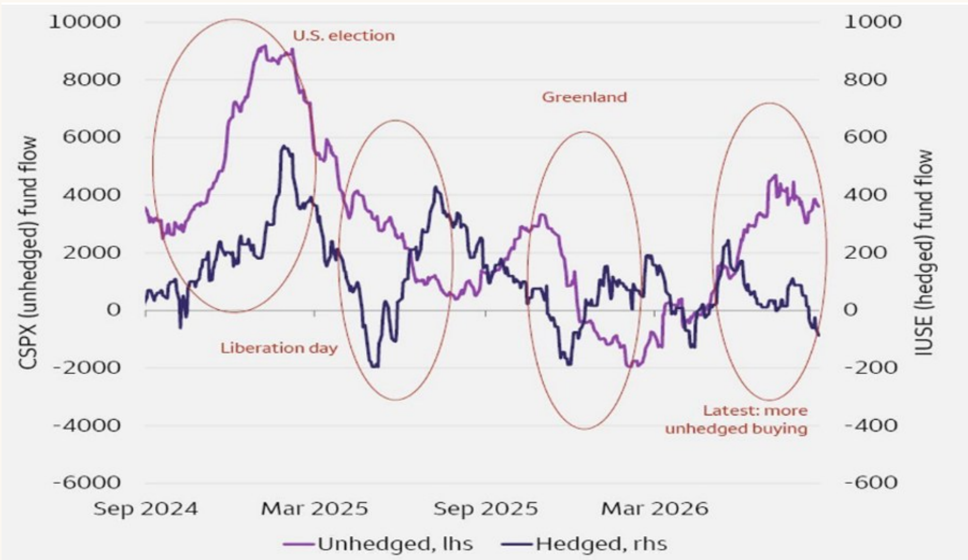
All good news is in the USD



The US data has looked weaker since the last Fed meeting, with mixed job data and negative retail sales growth in July. Inflation has not eased by enough to completely dissuade the Fed hawks. Core PCE was unchanged at 3.3%, and wage growth has fallen to levels consistent with 2% inflation. Rate hike expectations have slightly increased. Given the recent developments, we do not see inflationary pressures re-surfacing strongly enough to warrant immediate Fed hikes.

Hawkish tensions at the Fed should keep near-term rate hike expectations priced-in but not delivered. Fed favoured inflation metrics remains below Fed Funds rates. As 2027 approaches, we see markets pivoting back to pricing in cuts, because of basis effects.

Chart. Flows to US equity ETFs



Foreign investors have continued to invest into US equities. FX hedge ratios have fallen to near pre-Liberation Day lows. There has been a clear preference for unhedged buying. Watch out for a potential reversal.
A boost in FX hedge ratios can drive the next leg of USD weakness, even more as speculators are stretched long USD. Stay short USD.

Surprising resilient European economy

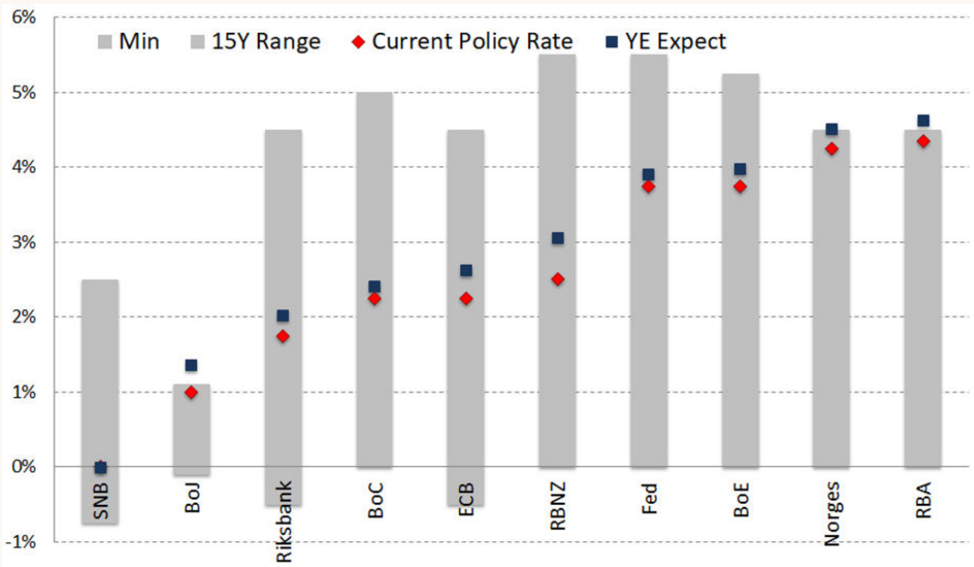
Euro core inflation slightly rose to 2.5%. The positive trade balance and improving European leading indicators suggest the economy is more resilient to the energy shock than feared. While the ECB paused its hiking cycle in July, elevated commodity and energy prices support a restrictive policy stance for longer. Recently Schnabel suggested that the ECB might have to characterise growth risks to the upside. This should cement expectations for a 25bps rate hike to 2.50% in September and can probably retain market pricing of another 25bps hike.

Investors now demand a premium for EUR/USD calls over puts for the first time since the war in Iran erupted. Renewed tariff uncertainty remains an upside risk to EUR/USD in the near term.
EUR gains should be steadier rather than exponential after the recent rally.

Japan caught in a debt-currency vicious circle

Japanese export growth accelerated to its fastest pace since 2022. However, the trade deficit still widened because of high oil prices. CPI rose for a 2nd month across all measures. Manufacturing and services PMIs remain in expansion area and increase. Recently, households cost-of-living have been stable thanks to government subsidies. These data corroborate a more aggressive BoJ pace of hiking. Markets are discounting 80% chance of a rate hike in September.

Chart. Still too low policy rate to help the JPY remains.solid



The BoJ has limited ammunition. A weaker yen triggers higher inflation which pushes BoJ to raise rates increasing Japanese yield and government debt costs. But if the BoJ buys JGBs to push yields down, it may weaken the yen further and increase inflation. So, Japan faces two bad choices: protect the yen or protect the bond market.

The BoJ should raise rates by mid-September and signal 2 hikes before higher energy prices complicate its path. The coordinated FX intervention has stopped the JPY weakness but failed to trigger a new trend. Everything is in the head of the BoJ. Avoid JPY.

CHF is turning lower

The CHF has weakened from its June peak, with the EUR/CHF recovering toward 0.94. Main drivers include a firmer EUR, low Swiss rates, and potential SNB FX interventions. FX interventions likely slowed in Q3, signalling SNB comfort around 0.94. Strong Q2 GDP is viewed as temporary front-loading ahead of US tariff hikes. With 0% policy rates and low CPI, the SNB will stay dovish.

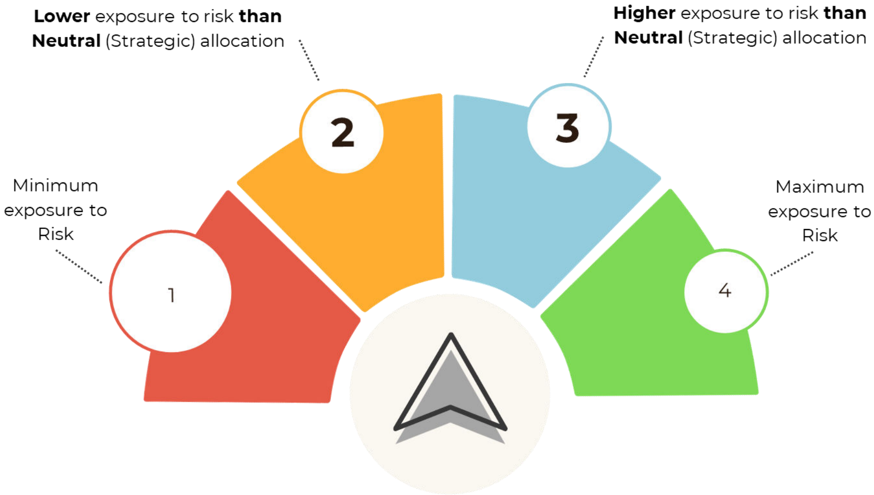
Chart. The CNY strengthening is not overdone

Whilst a move to negative rates looks unlikely, the still very low Swiss rates should favour further gradual weakness and boost the use of the CHF as a financing currency. The net short JPY position has been strongly cut since the FX intervention, but we see no clear sign that the carry trade has moved over to the CHF.

Despite a temporary pullback to 0.93 due to the US Treasury announcement, this level is expected to act as a strong support.

Bonds

Risk budget
3m investment horizon

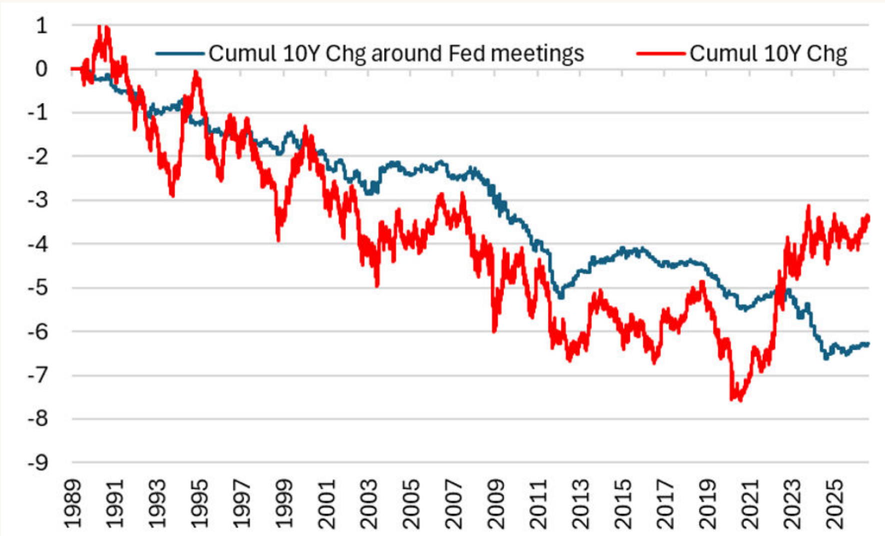


Towards a macro regime

For years, the US 10-year yield fell almost entirely on the handful of days around Fed meetings. That stopped in 2022 after the Fed began to raise rates. The US 10-year has since risen by 400pbs, but almost none of that came on Fed days. The reason is that each hike was largely priced by the time the Committee met, and the Fed announcement carried little news. Are the Fed meetings still the most important drivers of long rates?

Kevin Warsh's Jackson Hole speech made 2 things crystal clear: 1) The Fed's inflation target is PCE inflation and, 2) the tool to get inflation under control is the Fed funds rate, not the balance sheet, forward guidance, or financial conditions. With Fed Chair Warsh having dropped forward guidance, the most likely scenario is that rates become more macro. This looks more like a new regime.

Chart. Until 2021, 70% of the 10-year yield decline happened around Fed meetings



US Treasury on collision course with Fed

Amidst the varying interpretations of the US Treasury's buyback announcement, the most important takeaway might just be the return of an uncomfortable sense of economic policy uncertainty. We do not want to overinterpret its significance. The Treasury already recommended increasing the long bonds buybacks in its Q3 25 Quarterly Report Announcement. This decision did not come out of the blue as it shorten the weighted average maturity. The surprise is the timing of the announcement between regular QRA.

The interventions could end up being counterproductive and deliver the opposite of what Warsh aims to achieve with his no forward guidance policy. If the Treasury funds buybacks from its cash balance at the Fed (TGA), it will simply delay the required T-bill financing.

Since 2006, US gross federal debt has increased by $32trn while the nominal GDP has increased by $19tr. The debt is up 5 times and the economy only 2.5 times over that period. Debt is compounding faster than the economy that must service it. The outlook offers no relief. The CBO projects that debt held by the public will climb towards 175% of GDP because of structural deficits. 90% of the expected increase in spending is related to social security, health care costs and rising interest payments. The future of these programs is in the hands of the Congress. Reducing structural deficits is politically difficult even with a unified congress and will be near impossible with a divided one.

Lower long-end yields would be politically convenient ahead of the midterms. But unlikely.

The Treasury department should stop trying to hold down long-end yields and address the primary deficit instead. In the medium-term, increased intervention risk should force markets to price in a higher term premium to compensate for the political uncertainty. Too early to add US Treasury bonds.

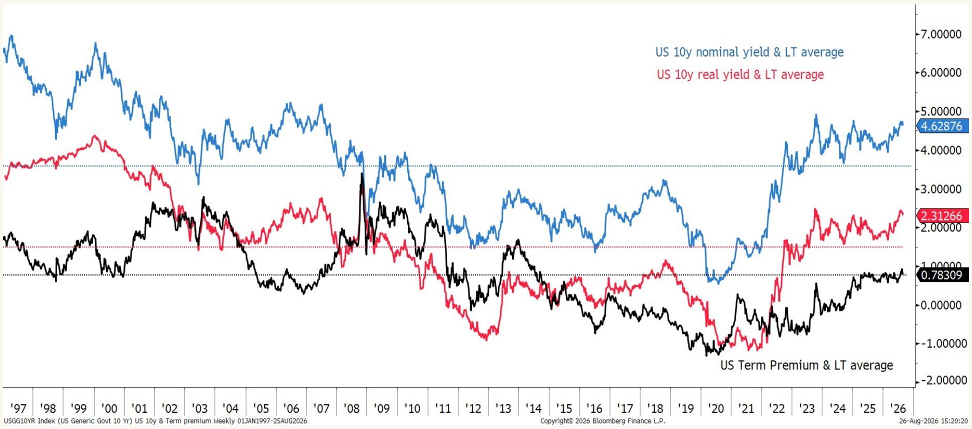


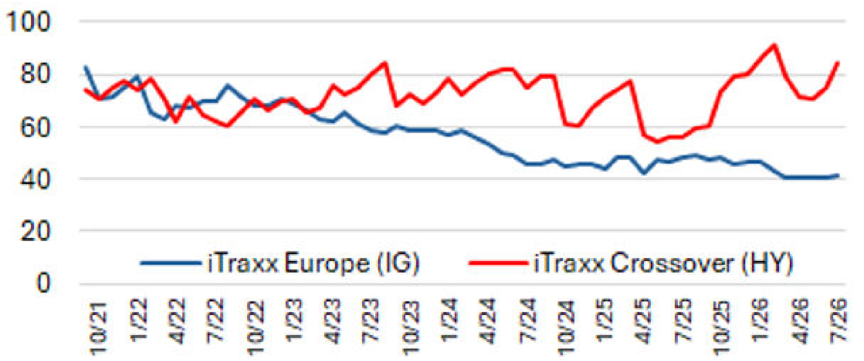
Chart. Nominal and real yields are back to 2000s levels, not term-premium

Credit market reshaping

AI adoption is shaking credit markets. AI is beginning to draw a frontier between businesses insulate from adoption and those vulnerable to direct replacement, labour displacement, or faster-moving AI-native competitors. Financing the AI buildout has become a market-capacity issue. Credit markets have absorbed hypersaclers record issuance, thanks to premium concessions. The near-term refinancing with more than $100bn of software and services loans maturing between 2027 and 2029 will be crucial. The supply-driven repricing - not a deterioration in credit quality – has put limited upward pressure on spreads.

AI development is also altering the diversification. Those companies have already issued this year $190bn in US IG and $50bn in US HY. They were representing 2.7% of US IG in July 2025, have jumped to 4.8% in August 2026, and could reach 8.8% by 2030. Those levels are not alarming. In 2000, at the time of the Dot-Com crisis, communication services were representing 35.7% of the market and, in 2015 energy companies' weight was 17.0%.

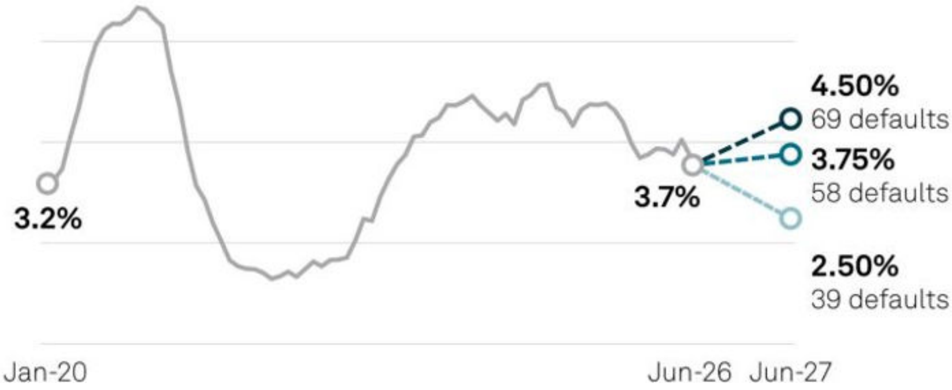
Chart. Credit market dispersion indices sent different messages



The dispersion indices, showing idiosyncratic risk, have behaved differently in IG and HY. HY dispersions jumped on private credit worries while IG dispersion kept falling. The IG dispersion has fallen slowly for the past years, while HY one is approaching its post-pandemic record. Lower dispersion typically helps tighten spreads. The current elevated HY dispersion remains a concern.

Growth, earnings, and default trends remain supportive, even if spreads are still near historic tights and rates are likely to stay higher for longer. Limited spread tightening, and growing dispersion across sectors, ratings, and issuers should create a more opportunity set, increasing the importance of credit selection.

Chart. In any case, HY default rate will stay contained



S&P expects the US HY default rate to remain stable around 3.75% by mid-2027, as the Middle East conflict-related uncertainty is offset by solid economic growth, strong earnings, and favourable debt market conditions. In a downside scenario, it could marginally increase to 4.5%.

- As this concentration grows, diversification should become more valuable.
- Credit fundamentals remain resilient, but the margin for error is narrowing. Stay overweight

Resilient EM debt

Despite recent mild corrections, EM debt remains resilient amid global macroeconomic, monetary, and geopolitical uncertainties, driven by sustained foreign investor inflows and 3 consecutive years of outperformance. High-yielding commodity exporters continue to outperform low-yielding oil importers.

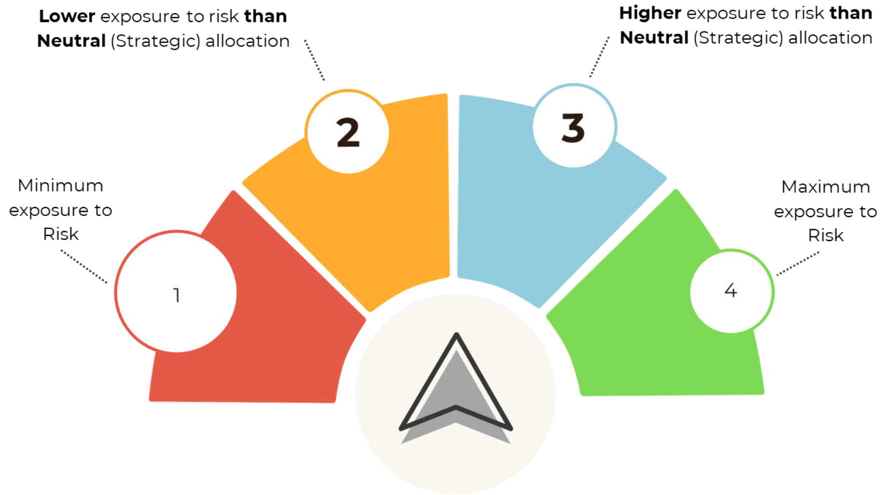
Unlike early 2022 - when bond markets offered inadequate compensation for building inflation risks - current real bond yields are positive, and investors receive materially higher compensation for duration, fiscal, and inflation risks.

Summer pullback was driven by renewed oil-related inflation concerns, a strong USD, Fed policy uncertainty, and unexpected rate held by central banks in Indonesia and South Africa. While the post-2023 disinflation trend faces tests - potentially prompting central banks to pause - this interruption is unlikely to spark a self-sustaining inflation wave.

- Bond vigilantes and higher yield buffers are actively counteracting inflation risks. Stay overweight

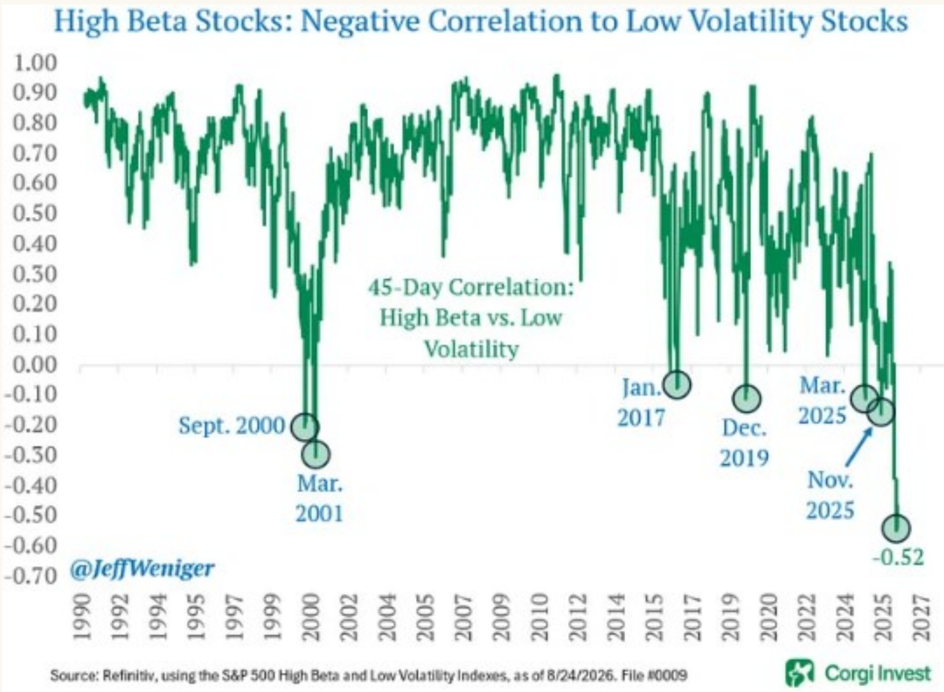
Equities

Risk budget
3m investment horizon



Preparing for the year-end rally (... and beyond?)

In recent weeks, a negative correlation has been observed among stocks - a rare and currently very pronounced phenomenon. Negative correlation implies that stock prices are moving in opposite directions, accompanied by significant dispersion. Sector-based or thematic approaches have given way to a company-specific strategy rooted in fundamentals.



Investors have not exited the equity market, but there has been significant rotation across sectors, segments, and individual stocks within sectors. For investors managing portfolios with a beta greater than 1, a challenge is that gains have been offset by stocks experiencing sharp declines.

Wall Street's skepticism regarding AI capital expenditure and the monetization of these investments is not borne out by the results, commentary, or forecasts of hyperscalers (cloud service providers operating massive global data center infrastructure to offer vast computing and storage capabilities) and semiconductor manufacturers. Nvidia, like others, predicts that AI investment will continue until at least 2029, while hyperscalers (Microsoft, Amazon, Google) report that the return on AI investment - its monetization - is accelerating. Anthropic saw its revenue increase sevenfold in a single year to $65 billion.

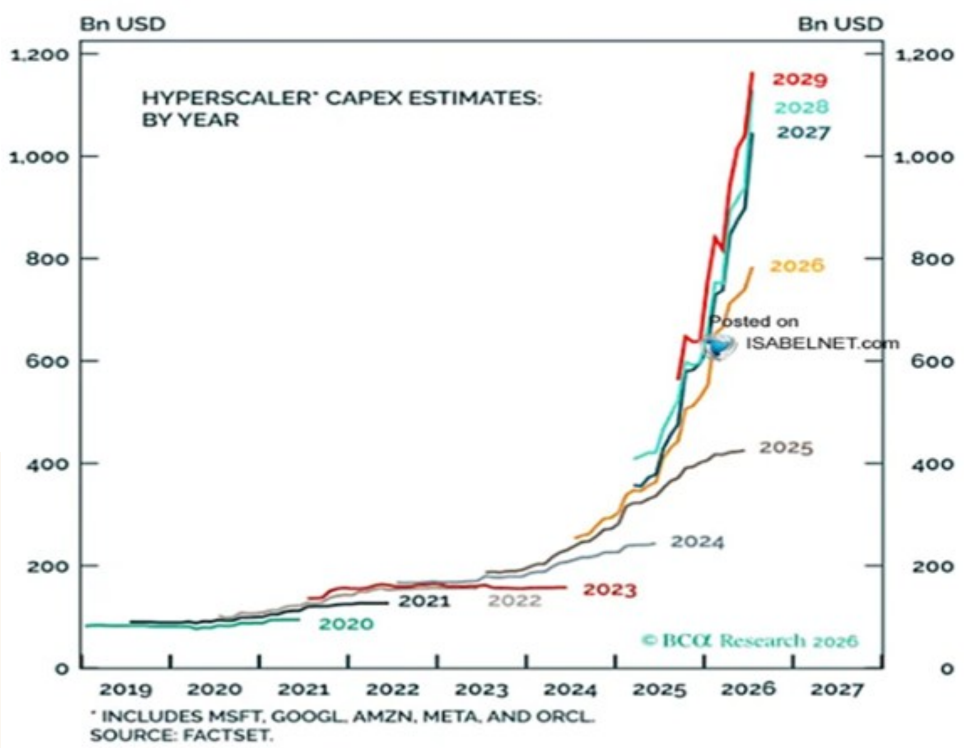


Chart. AI investments by the five hyperscalers in 2026, 2027, 2028, and 2029, totaling $4 trillion

Once Wall Street concludes that its doubts are unfounded, the "Magnificent Seven" and the technology sector will resume their upward trajectory, driving the broader market higher. The chart below, tracking the "Magnificent Seven" index, shows a technical consolidation pattern forming an ascending triangle. A breakout from this triangle is expected between late September and mid-October, coinciding with the end of the unfavorable seasonality (August–September). Regardless of the exact timing, an upward breakout will signal the start of a year-end rally.

We recommend gradually reducing exposure to the S&P 500 Equal Weight index in favor of the market-cap-weighted S&P 500, where the top 10 stocks account for 40% of the index.

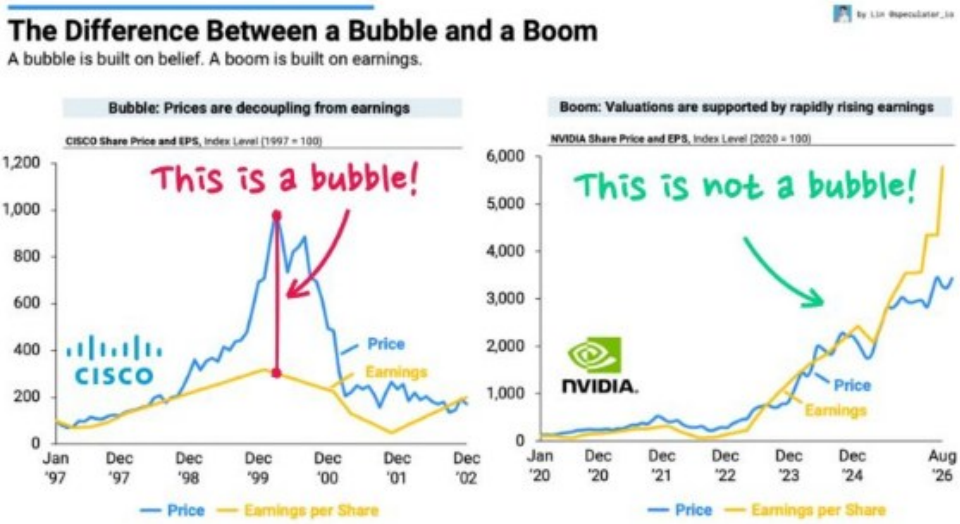
Chart. Magnificent 7 Index. A breakout of the triangle will mark the start of a year-end rally in 2026

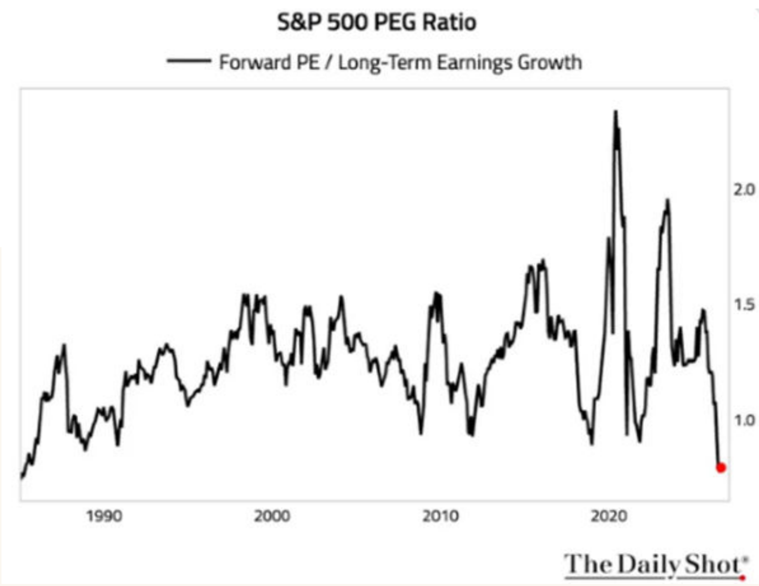
In the second quarter of 2026, exceptional profit growth of 53% has supported equities. While Big Tech and the technology sector are major contributors, profits rose by 24% even excluding them. Is there a profit bubble? Clearly, growth won't continue at this pace forever, yet growth rates exceeding 20% are expected for the next three quarters. Nvidia has forecast a 70% revenue increase for the upcoming fiscal year. Consequently, barring any signs of a reversal, stocks are likely to continue their upward trajectory.

Oil prices remain relatively low - below $90 per barrel - which eases pressure on US 10Y and alleviates inflation concerns. Index P/E ratios, particularly in the growth segment, are sensitive to these two factors: rising rates drive P/E ratios down, while falling rates push them up.

Lacking ideas and means to topple the Iranian regime, the US is likely to leave control of the Strait of Hormuz in the hands of Iran and Oman. Merchant vessels will pay transit fees, but traffic will resume. Under this scenario, Brent crude prices could fall back below $70 per barrel. Another positive geopolitical development would be a ceasefire in Ukraine. Facing difficulties, Putin has once again threatened to use nuclear weapons. However, NATO exercises around Kaliningrad, high-level European diplomatic maneuvers, and a visit to Moscow by the CIA chief could potentially lead to a ceasefire. A favorable outcome in both conflicts would certainly provide a boost to equities. Our base-case scenario sees the S&P 500 reaching 7,800–8,000 by the fourth quarter of 2026. However, a combination of favorable events - particularly on the geopolitical front - could trigger our "bull" scenario, with a target of 8,450 driven by multiple expansion.

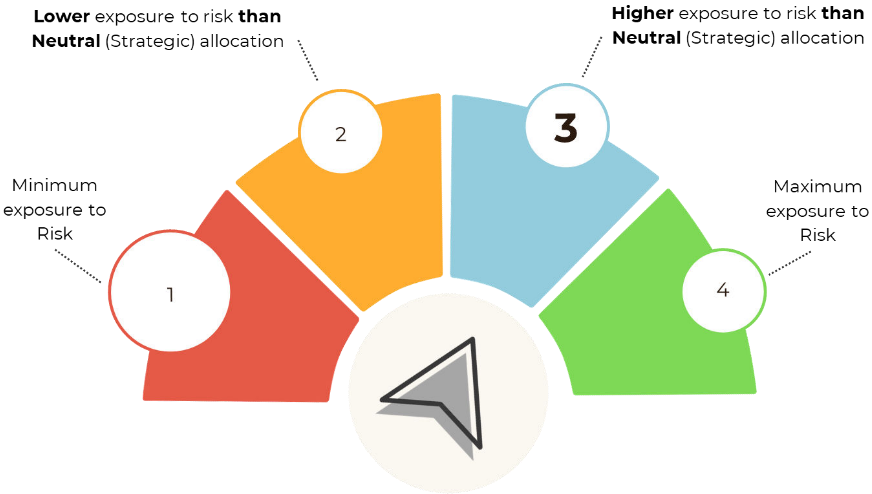
To reiterate, we are not in a bubble, but rather an AI boom. Market valuations are consistent with both macroeconomic factors (interest rates, inflation) and microeconomic fundamentals (earnings). A PEG ratio (P/E relative to earnings growth) of less than 1 would even suggest that the S&P 500 is undervalued. The circular economy surrounding AI - encompassing orders, cross-shareholdings, and financing - should not be a cause for alarm; on the contrary, it highlights an ecosystem where risks are managed by highly robust companies.





Alternative Investments

Risk budget
3m investment horizon



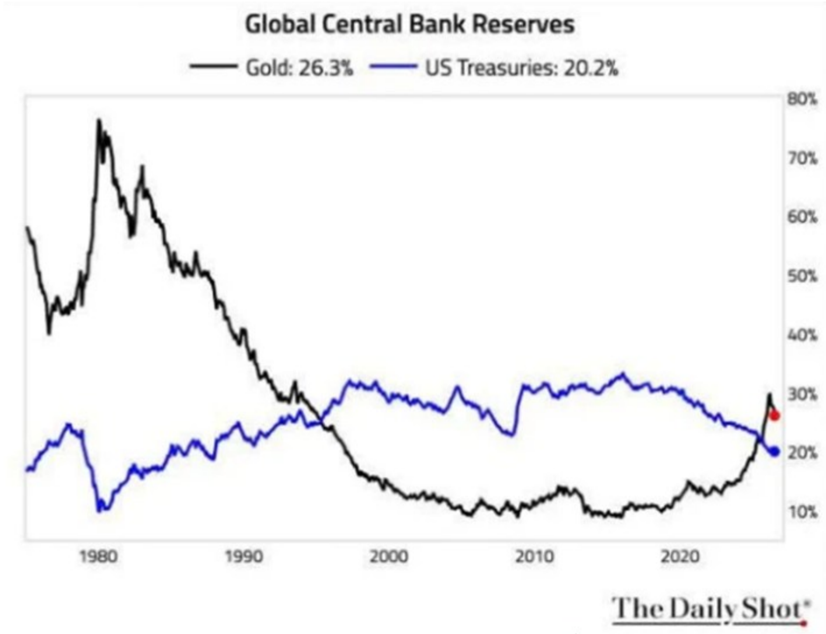
Gold and crypto shake off their lethargy thanks to Scott Bessent and the dollar

US Treasury Secretary Scott Bessent's announcement regarding potential long-term bond buybacks, aimed at easing pressure on 10-to-30-year yields, triggered a drop in the dollar and reignited the debate surrounding the $40 trillion US debt and global debt levels in general. Fundamental interest in gold and cryptocurrencies quickly returned, bolstered by favorable technical setups: gold was trading within a bullish consolidation triangle, while Bitcoin was sitting at support near its 200-day moving average. At the same time, the crypto sector benefited from progress on the "Clarity Act" in the US Congress, legislation designed to establish clearer market rules for cryptocurrencies.

In recent years, central banks have been buying gold at the expense of US bonds. World Gold Council surveys confirm that central banks intend to increase the gold component of their reserves.

From a technical standpoint, both gold and Bitcoin are currently in overbought territory; we are buyers on setbacks. Gold and Bitcoin remain scarce assets and serve as a sound response to rising debt levels.

Chart. Global central banks' gold reserves, and those of the PBoC in particular



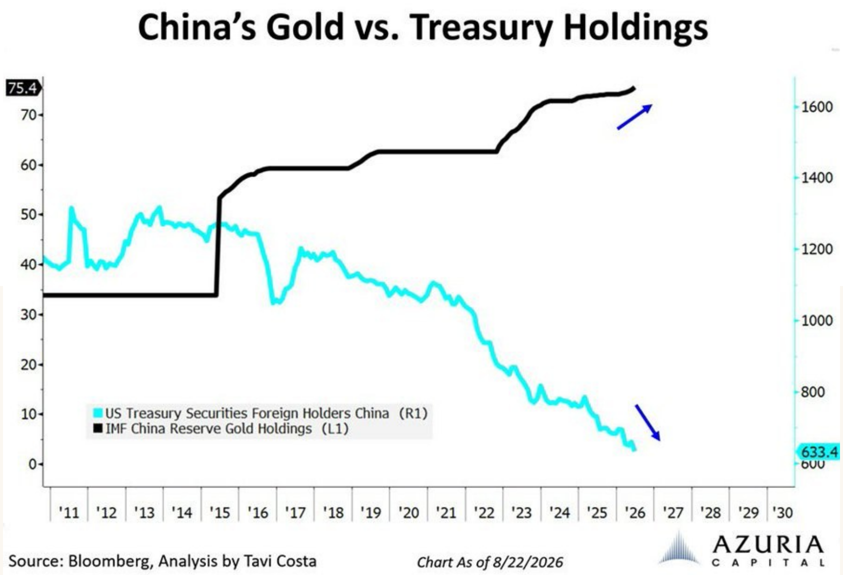
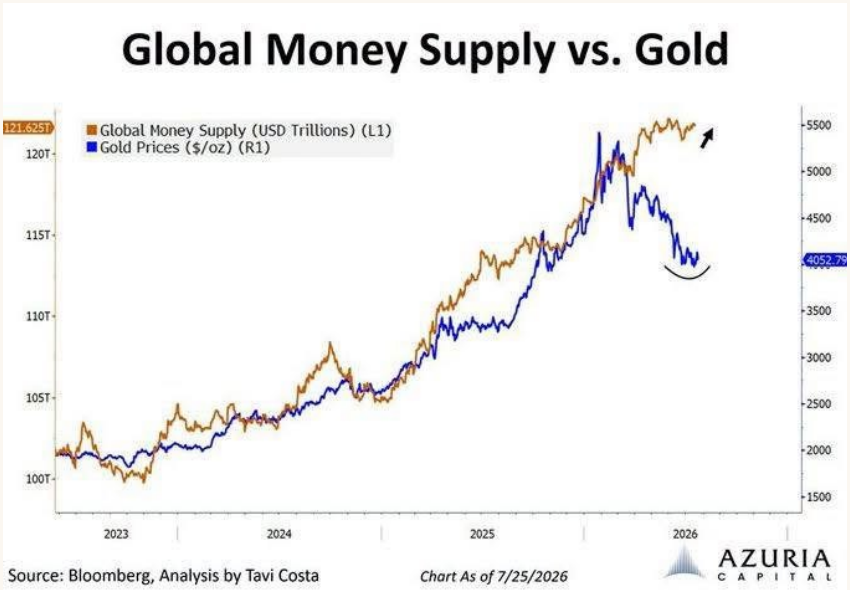


Chart. More liquidity = increase in gold and bitcoin prices



Copper prices: a steady, uninterrupted climb

Since 2020, the price of copper has been on the rise, with the exception of a few months in 2022 following the outbreak of the war in Ukraine.

Demand is projected to grow by 50% by 2040, accompanied by a 20% supply deficit. This outlook is driven by strong demand from AI, the energy transition, electrification, and military spending, alongside constraints on mining operations and the opening of new mines. With El Niño arriving in November, supply could be disrupted by flooding, a recurring pattern in such conditions.

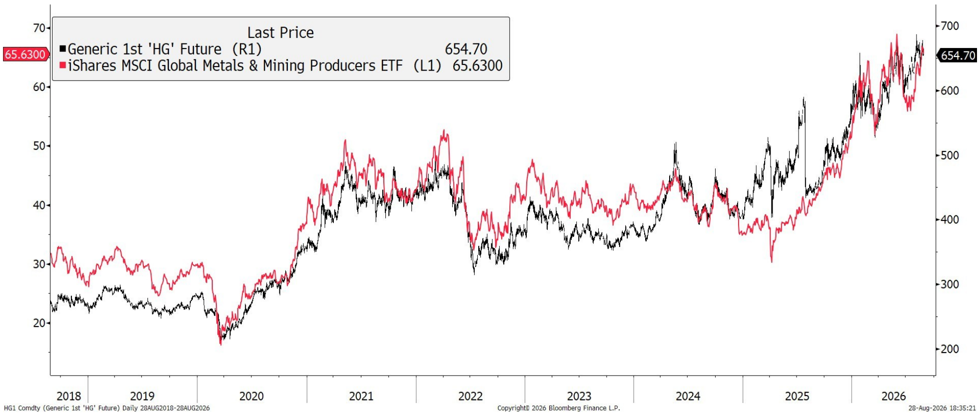


Chart. Copper price (in black). The iShares Global Metals & Mining ETF (in red) remains a perfect proxy for playing copper and other industrial metals

Oil prices likely to fall

Tensions regarding maritime traffic in the Strait of Hormuz are easing, driven by the way Iran and Oman are managing the waterway, American powerlessness, and the anticipation of US economic sanctions - described by Trump as "the toughest ever imposed" - that will likely never materialize. Currently, oil flows through the Strait are estimated at 60% of pre-war levels.

The oil deal between Trump and the Venezuelan government is controversial. The United States stands to secure access to 65 billion barrels. Once again, Trump has hailed this as the "biggest oil deal in world history." The agreement serves to prop up an illegitimate Venezuelan government, undermine the democratic process, and seize an asset belonging to the people, reflecting Trump's typical "mafia-style" tactics. However, the deal carries risks for US companies; a future Venezuelan government could decide to renege on the agreement. Given the massive investment required, US companies are proceeding with caution. An increase in Venezuelan supply is not expected for several years.

The United Arab Emirates has left OPEC to boost production, and Norway has decided to accelerate its own output, adopting a "drill, baby, drill" approach.

Conditions are aligning for a drop in oil prices. We have shifted our stance on the energy sector from "overweight" to "neutral."

The Monthly Letter

TACTICAL SITUATION REPORT

September 2026

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