

Letter from The CIO

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Markets in Suspension: Between Euphoria and Caution

- **Markets continue their momentum**, supported by the Fed's first rate cut and a resilient US economy.
- **The frenzy around AI is fuelling tech stocks** but rekindling fears of a speculative bubble.
- **Gold hits a record high**, reaffirming its role as a safe haven.

Markets continued their strong momentum throughout September, supported not only by the first 25-basis-point rate cut in the US this year, but also by the upward revision to second-quarter US GDP growth and a series of stable inflation readings.

Despite early signs of easing in the labour market, the US economy continues to demonstrate remarkable resilience. This has reinforced investor confidence that this underlying strength could continue to support earnings in key sectors of the economy despite current elevated equity valuations. However, these positive developments present a complex challenge for the Federal Reserve which is tasked with balancing a softening labour market against an inflation rate which remains persistently above its 2% target, all the while navigating an economy that continues to resist external headwinds.

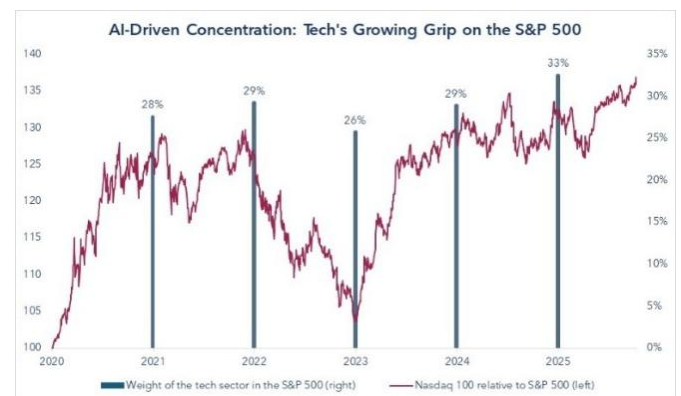
Within this favourable environment, equity markets displayed markedly asynchronous performance in September. In the US, the S&P 500 closed up 3.6%, driven primarily by massive investments in artificial intelligence which boosted the technology sector significantly. Utilities benefited from lower interest rates, while the financial sector was penalised by declining yields. The energy sector lagged due to falling oil prices.

In Europe, performance was more mixed: the Stoxx 600 rose 1.5%, the German DAX slipped 0.1%, and the French CAC 40 rebounded by 2.7%. Switzerland experienced a challenging month, with the SMI down 0.5% despite strong performances by individual stocks such as Richemont (+8.4%), ABB (+6.8%), and Logitech (+5.0%).

Emerging markets continued to benefit from US monetary easing, with the MSCI Emerging Markets index gaining more than 7%, while Japan advanced further with the Topix rising 2.9%. On the fixed income side, movements were relatively synchronized. Expectations of a slowing US labour market, combined with renewed Fed accommodation, pushed the 10-

year Treasury yield down from 4.23% to 4.15%. Meanwhile, the yield on the 30-year Treasury saw one of the largest declines, falling 19 basis points to 4.73%, reflecting investor anticipation of slower growth and a more accommodative monetary policy. The Bloomberg US Aggregate Bond Index increased 1.1%, and German 10-year yields remained stable at 2.70%. Regarding commodities, gold surged more than 11%, marking its best monthly performance in over a decade, whereas oil continued to decline with US crude falling 2.6%.

In currencies, the euro remained broadly stable against major peers, supported by contained inflation and cautious ECB messaging. The US dollar weakened slightly against the euro towards the end of the month amid concerns over a potential US government shutdown.



Source: Bloomberg / Banque Heritage

As we enter October, we continue to observe a clear case of market schizophrenia, where rising equities coexist with substantial underlying risks. This momentum is supported by expectations of an imminent additional Fed rate cut and robust macroeconomic data; yet it is further amplified by substantial investments in artificial intelligence by major technology companies. Recent partnerships between OpenAI and Nvidia or AMD exemplify this trend and highlight the



growing interdependence and interconnectedness within the AI ecosystem.

Nvidia plans to invest up to USD100 billion in OpenAI, including the gradual acquisition of shares, while AMD will supply AI chips to OpenAI and grant the company the option to acquire up to 10% of AMD's capital, potentially generating tens of billions in annual revenue. These announcements have driven spectacular valuation increases, with AMD rising more than 30% in a single day, while simultaneously reinforcing financial ties among sector players, as evidenced by Nvidia's USD 5 billion investment in Intel.

However, these dynamics raise important questions about the sustainability and integrity of this growth. Goldman Sachs has warned of a potential "circular growth" effect in which investments in partners could simply return as orders, creating a closed, self-reinforcing ecosystem. This concentration amplifies concerns about artificially inflated activity and raises the medium-term risk of a speculative bubble, something which investors do not yet appear to be pricing into their decision-making processes.



Source: Bloomberg / Banque Heritage

This market schizophrenia is also strongly reflected in the gold market where prices crossed the symbolic USD 4,000 per ounce mark for the first time, following a year-to-date gain of over 50%. This surge reflects investor distrust of the dollar and US debt and has been exacerbated by the political crisis in France, the US government shutdown, and ongoing geopolitical tensions in Europe and the Middle East. Gold thus serves as a critical barometer of investor caution that has not yet been fully priced into financial markets, particularly amid the continued rally in the technology sector. While gold remains a haven, its ascent underscores the discrepancy between optimism in equities and genuine caution regarding macroeconomic and geopolitical risks.

Despite these signals of market schizophrenia and the tensions described above, our central scenario remains constructive. The US economy continues to display robust fundamentals, and indicators such as the Atlanta Fed's GDPNow forecast third-quarter growth broadly in line with Q2. Inflation, though still above Fed's target, appears contained, and we do not anticipate an uncontrolled surge resulting from trade tariffs. The labour market is expected to show continued moderation in Q4, supporting the likelihood of two additional rate cuts by year-end.

Considering these mixed signals, we remain cognizant of potential imbalances and latent risks, particularly the concentration of flows into the technology sector and the expansion of an artificially fuelled economy. As such, we maintain a prudent, well-diversified approach across sectors and asset classes to mitigate exposure to these specific risks, while keeping our overweight position in gold which we continue to regard as the only true hedge against macroeconomic, geopolitical, and financial uncertainties.