

Letter from The CIO

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Financial Markets: Between Geopolitical Easing and Monetary Support

- **Financial markets rebound:** Geopolitical détente and monetary support boost risk assets, driven by rising equities.
- **Monetary support:** The Fed cuts its key rate by 25 basis points, confirming its accommodative policy.
- **Resilient US economy:** Controlled slowdown and contained inflation despite fiscal uncertainties.

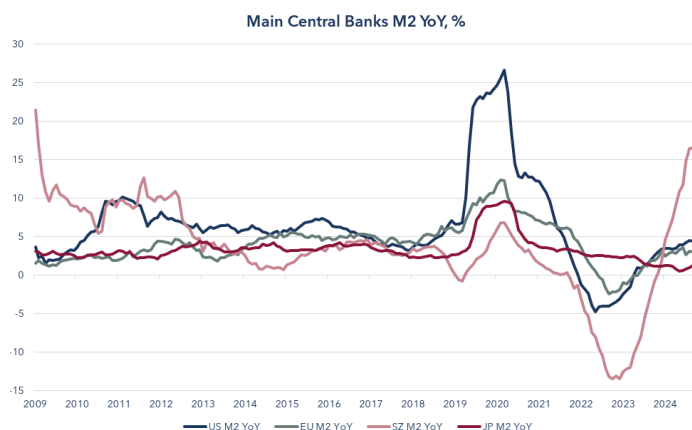
Financial markets extended their gains in October, driven by a reduction in trade tensions between the United States and China and by confirmation of a continued supportive monetary environment. The resumption of negotiations between Washington and Beijing resulted in a one-year preliminary agreement, suspending the implementation of new tariffs and easing Chinese export restrictions on rare earth materials. This development helped restore investor confidence, boosting demand for risk assets. At the same time, the Federal Reserve cut its policy rate by 25 basis points in a context of inflation still above target but now stabilizing. This move strengthened expectations of a soft landing for the U.S. economy, although Jerome Powell's cautious remarks following the FOMC meeting reminded investors that another rate cut in December was not guaranteed.

In this environment, equity markets advanced in a synchronized manner during the month, though with regional disparities. In the United States, the S&P 500 gained +2.6% and the Nasdaq +4.2%, supported by monetary easing and a strong earnings season. As of end October, 82% of companies reporting results had exceeded expectations, with profits 6.4% above analyst forecasts.

In Europe, the Stoxx 600 rose 2.6%, the CAC 40 gained 3.0%, while the DAX was nearly flat (+0.3%), weighed down by zero GDP growth in Germany during the third quarter. The Swiss SMI advanced 1.0%.

In Japan, the TOPIX surged 6.2% following the appointment of Sanae Takaichi as the country's first female Prime Minister who announced expansionary fiscal and monetary policies. Finally, emerging markets also outperformed, with the MSCI Emerging Markets Index rising 4.2%, supported by an Asian rebound. In fixed income, the U.S. 10-year Treasury yield fell to 4.07%, while the German 10-year Bund settled at 2.63%, reflecting

both easing trade tensions and continued monetary support. Among commodities, volatility remained high: gold gained 3.8%, silver rose 4.3%, while WTI oil declined 2.2%. On the currency front, the euro weakened slightly against both the U.S. dollar (-1.7%) and the Swiss franc (-0.7%).



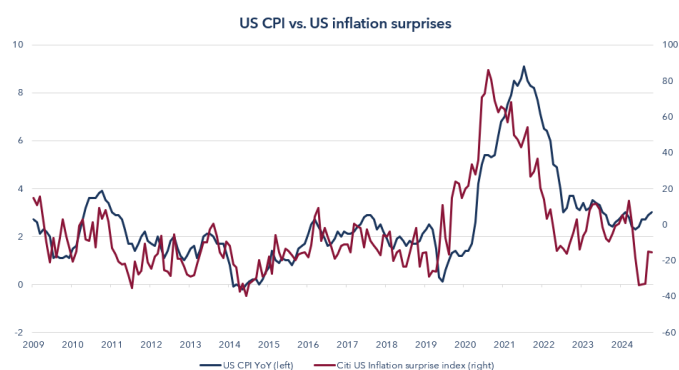
Economic Outlook: Signs of a Controlled Slowdown

In the United States, the political environment remains tense, with a federal government shutdown in effect since October 1st due to a budget impasse between Republicans and Democrats. However, the Senate has approved a bipartisan agreement paving the way for the reopening of federal services and the restoration of government funding through January 30, 2026, a first step before a final vote requiring only a simple majority. If the Republican-led House of Representatives also approves the measure, it will be sent to



President Donald Trump for signature, a process that could still take several days.

On the economic front, U.S. resilience remains remarkable. According to the Atlanta Fed, third-quarter GDP growth could reach nearly 4%, driven by technological investment and cloud infrastructure expansion.



Source : Bloomberg / Banque Heritage

Despite the partial government shutdown, the latest inflation data confirm a situation under control: prices rose 3% year-on-year in September, a high since January yet below expectations (3.1%). The 0.3% monthly increase was mainly due to a 4.1% rise in gasoline prices, while food inflation slowed, and housing costs continued to moderate. Excluding energy and food, core inflation rose only 0.2%, reinforcing the view of a gradual and sustainable disinflation trend.

In the euro area, growth remains moderate but stable: GDP expanded by 1.3% in Q3, slightly below the previous quarter but above forecasts. Inflation, contained at 2.1% in October, supports the scenario of an economic stabilization. Leading indicators also point to gradual improvement: the composite PMI climbed to 52.2, a 17-month high, driven by Germany's recovery and the strength of the services sector (PMI: 52.6). France, by contrast, remains a laggard, weighed down by contracting industrial activity and a fragile political climate.

Positioning: Constructive and Selective

Recent data confirm a controlled global slowdown, underpinned by solid fundamentals. In the United States, growth remains resilient despite political tensions, and the Federal Reserve has resumed its monetary easing cycle, which should help improve liquidity within the economy. The tariffs imposed by the Trump administration have so far had a limited impact on prices, allowing inflation to remain contained. As the third-quarter earnings season draws to a close, S&P 500 profits are expected to rise by +10% in Q3 and +13% for the year, confirming the underlying strength of the U.S. corporate sector. However, elevated valuations, fueled by enthusiasm around artificial intelligence, have raised concerns of a potential bubble, reminiscent of the early 2000s. In addition, the persistence of certain inflationary pressures and signs of weakness in the labor market call for a measured and cautious approach.

We therefore maintain a constructive but neutral stance on equities, supported by broad sector diversification. The industrial and consumer discretionary sectors remain favored, driven by strong demand and solid earnings visibility, while health care and consumer staples stay underweighted. Greater selectivity within the technology sector is also advised. Overall, both the U.S. and European economies continue to show steady momentum, with no immediate signs of recession. In fixed income, we remain slightly underweight sovereign debt, favoring short-to-medium durations and high-quality corporate credit. The high-yield segment is represented but managed with a conservative risk approach.

On the alternatives front, we remain overweight gold, supported by declining U.S. real rates and robust physical demand; the precious metal continues to serve as the most effective hedge against market shocks. Finally, we stay underweight the U.S. dollar, despite its recent rebound. A less favorable rate differential and persistent investor skepticism toward U.S. policy are likely to weigh further on the greenback.

In an environment where markets fluctuate between resilience and uncertainty, we remain convinced that a measured and selective approach is the best course of action. Our focus is clear: to stay invested, but with discernment, prioritizing quality and diversification in an environment that remains demanding.