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Letter from the CIO
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Washington Shifts, Fundamentals Hold

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October marks a rotation into defensive sectors, while bonds regain their role as a portfolio stabiliser.

02
Growth holds up, but energy continues to fuel inflation, and both the Fed and the ECB could adopt a more hawkish stance in December.

03
The Democrats take control of Congress, but the presidential veto limits their room for manoeuvre, shifting the focus primarily to fiscal policy.

01

October: The great rotation

October marked a clear break from September. The extreme concentration around technology partially unwound, giving way to a rotation into defensive, value and cyclical sectors, while bonds regained their diversification role. In the US, the S&P 500 ended the month slightly lower, down 0.9%, but this apparent stability masked significant dispersion: the Nasdaq fell 5.3%, while the Dow Jones gained 1.8% and the Russell 2000 rose 0.6%. Communication services (-15.0%) and technology (-6.9%), the strongest performers in the previous month, corrected sharply. By contrast, energy (+13.9%), consumer staples (+11.8%), utilities (+10.2%) and healthcare (+9.4%) clearly outperformed. This shift was also visible across styles, with MSCI US Value up 3.5% versus a 5.4% decline in MSCI US Growth.

Europe followed a similar pattern. The Stoxx 600 gained 2.0% and the DAX 2.5%, supported by healthcare (+14.1%), energy (+13.7%) and consumer staples (+12.5%), while technology and financials lagged. Switzerland stood out, with the SMI rising 7.1%, benefiting from its defensive bias. By contrast, Asia and emerging markets came under pressure: the MSCI Emerging Markets index declined 8.0%, the Hang Seng 5.2% and Brazil's Bovespa 9.9%. Despite these divergences, year-to-date performance remains solid, at +11.8% for the S&P 500, +12.4% for the Stoxx 600 and +15.1% for the SMI.

Fixed income, meanwhile, provided meaningful support to portfolios. After reaching 5.27% at the end of September, the US 10-year Treasury yield fell back to 4.91%, while the German 10-year Bund yield eased to 3.32% from 3.58%. In contrast with the previous month, the stock-bond correlation normalised, allowing traditional diversification to play its role as a portfolio stabiliser once again.

Commodities moved in sharply different directions. WTI surged 15.2% to USD 104 per barrel, taking its year-to-date gain to more than 80%. Gold, by contrast, fell 6.8% to USD 3,875 per ounce, while silver (-18.7%), platinum (-16.4%) and palladium (-19.0%) posted even steeper declines. In foreign exchange, the Swiss franc fully played its safe-haven role, appreciating 2.8% against the euro and 1.3% against the US dollar. Overall, October rewarded more balanced portfolios with less reliance on the growth factor alone.

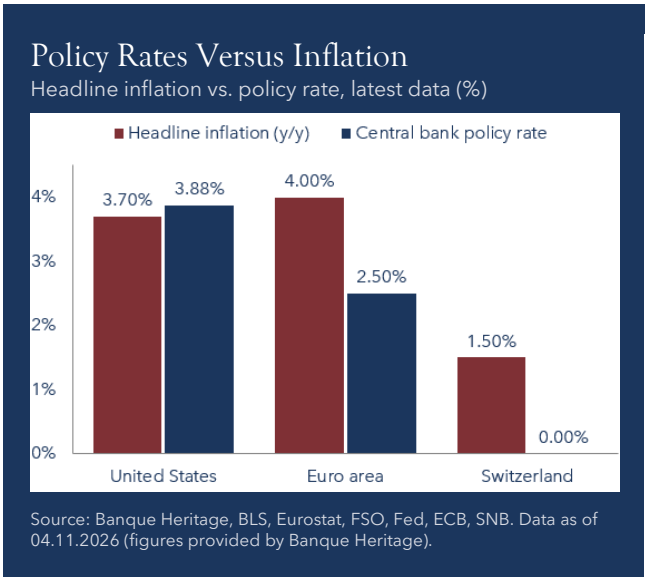
02

Growth holds up, Inflation does too

Economic data remain broadly resilient. In the US, third-quarter growth came in at 3.4% annualised, above expectations and sharply higher than in the previous quarter. Consumer confidence rebounded in October and weekly jobless claims remain close to historical lows. One signal nevertheless deserves monitoring: real consumption was flat in September,

as higher energy prices began to weigh on purchasing power.

In Europe, growth also surprised to the upside, with euro area GDP rising 0.4% in the third quarter, although national divergences remain pronounced. Germany expanded by 0.2% and the IFO index continued to improve, while Italy stagnated and France contracted slightly by 0.1%. This relative French weakness is also reflected in bond markets, with the 10-year OAT yield close to 5% and the spread versus Bunds around 165 basis points. In Switzerland, inflation accelerated to 1.5% in October, mainly due to energy, but remains within the SNB's price-stability range. The SNB has kept its policy rate unchanged at 0%.



Source: Banque Heritage, BLS, Eurostat, FSO, Fed, ECB, SNB. Data as of 04.11.2026 (figures provided by Banque Heritage).

Looking ahead, energy and inflation will remain the main macro variables. The oil shock intensified in October, with Brent approaching USD 118 per barrel following the attack on an oil tanker in the Strait of Hormuz, adding to inflationary pressure in both the US and the euro area. Underlying measures remain more contained for now, at 3.1% for US PCE inflation and 2.5% in the euro area. The outcome of the midterm elections nevertheless appears to have altered near-term risk perceptions, with markets now pricing the possibility of more limited US involvement in the Middle East, prompting a sharp correction in Brent in early November. A sustained easing in energy prices would mechanically reduce inflationary pressure and lessen the need for further monetary tightening. December nevertheless remains an important milestone. Both the Fed and the ECB could tighten financial conditions further. We do not view this as a regime change, but rather as a phase of managing energy-driven inflation risks in an environment where growth remains, for now, broadly resilient.

03

Year-End: A new political landscape in Washington, but the same convictions

The 3 November election has reshaped the political landscape in Washington without fundamentally altering our central scenario. The Democrats have taken control of both chambers of Congress, although their room for manoeuvre will remain constrained by the presidential veto and Senate voting rules. For markets, the key issue is therefore likely to be less legislative than fiscal. With each side defending its own spending priorities, compromise may come more through addition than restraint, even as the deficit remains elevated despite solid growth. Following the already sizeable stimulus from the "One Big Beautiful Bill", Treasury financing needs are likely to remain a source of volatility at the long end of the curve. The recent decline in yields should not obscure their structural sensitivity to debt supply.

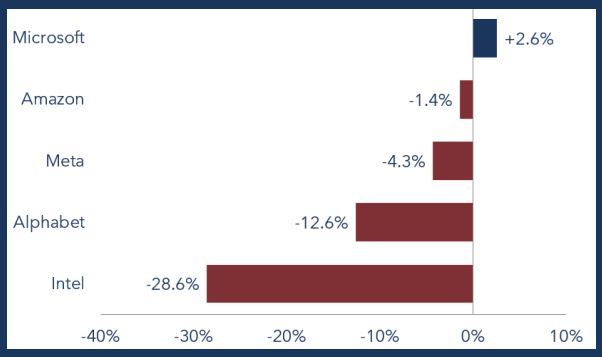
The new political configuration does not, however, imply a diminished role for the executive branch. Trade policy, immigration and foreign policy remain largely within presidential control, while a firm stance towards China continues to enjoy broad bipartisan support. The conflict with Iran also remains an upside risk for oil and, by extension, inflation. At the state level, several newly elected governors have signalled a willingness to impose tighter constraints on data-centre development, particularly around permitting, water usage and energy costs. The risk remains targeted for now, but it directly affects the investment cycle in artificial intelligence, which has become one of the key drivers of US capital spending and earnings growth. Its ultimate impact will, however, depend on the policies that are actually implemented, which may differ materially from campaign rhetoric and promises.

This is precisely where the third-quarter earnings season is providing a welcome degree of discipline. S&P 500 earnings are rising by roughly 30–32% year on year, and 82% of companies that have reported have beaten expectations. Yet the market has become significantly more selective. AI-related

growth is no longer sufficient on its own: investors are increasingly demanding clearer visibility on returns on capital, margins and cash-flow generation. The contrasting market reactions to Alphabet and Microsoft illustrate this shift well. The market is still willing to pay for growth, but no longer at any price.

AI Growth Is No Longer Enough

Share price reaction to Q3 2026 results (%)



Source: Banque Heritage, Bloomberg, CMF Hebdo. For illustration only; not a recommendation to buy or sell any security.

Our positioning therefore remains constructive, but increasingly selective. We remain invested in equities, supported by robust growth and solid earnings, while gradually reducing exposure to technology companies most dependent on the AI capex cycle in favour of high-quality growth businesses characterised by strong balance sheets, high margins and recurring cash flows. In fixed income, current yield levels continue to offer attractive carry and once again demonstrated their value within portfolios in October. We expect volatility linked to Washington, AI and oil to persist; we see this more as an opportunity to add to high-quality assets than as a reason to challenge our central investment scenario.

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