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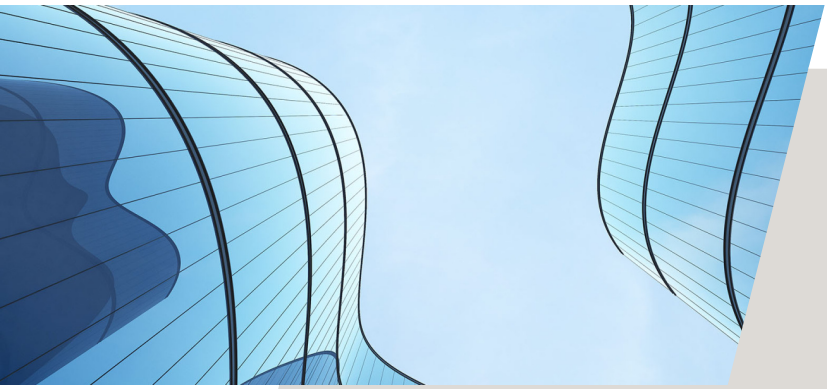

Quarterly Strategy Q3 2025: Open Architecture

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Markets are booming despite geopolitical turmoil

Equity markets continued their upward trajectory in the third quarter, breaking record after record thanks to the trade agreements concluded with the United States at the end of July, global economic activity proving more resilient than expected, and hopes of a new cycle of rate cuts initiated by the Fed from September onwards. Increased global geopolitical fragmentation, the lack of resolution to the armed conflicts in the Middle East and Ukraine and, more generally, the persistence of downside risks weighing on the markets did not dampen investor optimism, with investors remaining positioned for a continued rise in the stock market.

Between the 9th of April and the end of July, Donald Trump fuelled uncertainty around 'reciprocal' tariffs with a series of erratic and contradictory announcements. The suspense finally ended with the conclusion of several trade agreements at the end of July, which pushed the average effective rate of US tariffs to 18.4%, a record high since 1933, compared with 2.4% at the beginning of the year [1]. At the same time, President Trump's 'big and beautiful' budget bill was approved by Congress. The legislation is expected to add $3.4 trillion to primary deficits over the next ten years. However, part of this additional cost should be partially offset by higher revenues from these new tariffs.

Against all expectations, the global economy has proved more resilient than anticipated since the start of the year. In fact, global GDP in the first quarter was 0.3

percentage[2] points higher than April 2025 forecasts, thanks to a surge in global trade driven by a rush of orders ahead of tariff hikes, the worldwide cycle of interest rate cuts, continued generous fiscal policies, and the decline of the US dollar, which greatly eased the burden on emerging markets indebted in that currency. While this resilience has recently led all forecasting bodies to revise their 2025 growth projections upwards, they remain below the performance achieved in 2024.

After a sharp rebound in the second quarter (GDP up 3.8% annualised[3], thanks to strong net exports and non-residential investment, particularly in AI), the resilience of economic activity and the threat of inflation reigniting due to tariff increases justified the Fed's reluctance to cut policy rates since the start of the year. Activity data have shown signs of strength, and some manufacturing surveys (Philly Fed and Empire Manufacturing) even surprised to the upside in July, while June inflation figures revealed the first signs of tariffs influencing goods prices, with headline inflation rising from 2.4% to 2.7% year-on-year[3]. At the Jackson Hole symposium in late August, Mr Powell finally opened the door to a possible rate cut at the 16 September policy meeting, acknowledging that "the balance of risks (inflation-employment) could justify an adjustment" to monetary policy. Recently, inflation has proved more moderate than feared, thanks to low oil prices and the fact that tariff hikes have not yet fully taken effect. In early September, the prospect of a rate cut strengthened after the Bureau of Labor Statistics estimated that the economy had created 911,000 fewer jobs than initially calculated during the year ending 31 March 2025. Considering that "downside risks to employment had increased", the Fed cut rates by 25 basis points on 17 September, bringing them to a range of 4.0%-4.25%, their lowest since late 2022. The central bank also published new economic projections, slightly revising GDP and inflation forecasts upwards for 2025 and 2026, while stressing that "uncertainty surrounding the economic outlook remains high."

The eurozone economy is experiencing the opposite cycle: GDP accelerated in the first quarter thanks to a rebound in exports and manufacturing, then slowed in the second quarter due to a sharp drop in productive investment. Manufacturing has recently slipped back into contraction territory, owing to weaker US demand and growing competition from China seeking alternative markets to the US. The trade surplus with non-EU countries shrank by nearly 50%[4] in June-July compared with the same period in 2024. The region also faced turbulence following Bayrou's request for a confidence vote in August, which sent the CAC 40 down 3.2% over two sessions[5], culminating in the government's resignation after the 8 September vote. After eight consecutive rate cuts since June 2024, the ECB opted for a pause at its July and September meetings, leaving the deposit rate at 2%, considered the "neutral" level[6]. According to Ms Lagarde, inflation[7] is close to its 2% target and "risks to economic growth have become more balanced", while acknowledging that "price developments are more uncertain than usual due to the volatile trade environment." The ECB revised its 2025 growth forecast up to +1.1% from +0.9% in June, thanks to a strong start to the year, and expects underlying inflation at +1.9% in 2026[8]. After being driven early in the year by exports and targeted measures to support consumption and encourage renewal of productive equipment, China's economy lost momentum at the start of summer. This slowdown stems from weaker external demand, particularly from the US, and subdued domestic demand, as Chinese consumer confidence remains dampened by the ongoing property crisis and a deteriorating labour

market. Foreign trade remains the main engine of the economy, and above all an outlet for the country's industrial overcapacity. Despite a 24% drop in exports to the US between June and August this year, China's trade surplus still grew by more than 14% year-on-year, thanks to re-exports via Vietnam to bypass tariffs and sales to the EU, which rose by around 6% over the same period[9]. The Chinese Communist Party is expected to review its five-year plan at the upcoming October congress, aiming to strengthen the contribution of domestic demand.

The MSCI World closed the quarter almost at its previous record set on 22 September 2025, posting a 6.86% gain in local currencies in the third quarter[5]. Driven by better-than-expected quarterly results, US technology stocks continue to lead the way, with the Nasdaq up 11.24% in dollars over the quarter thanks to the "Magnificent 7", which gained 15.52% in dollars[5]. By contrast, the Dow Jones, more representative of the "old economy", recorded a modest 5.22% rise in dollars over the period, while setting a new record on 30 September. S&P 500 volatility fell to its lowest level of the year in September at 15%[5], reflecting growing investor appetite for US equities, corroborated by a strong rebound in net buying flows into US equity mutual funds, totalling $49 billion compared with $92 billion in net outflows over the previous two months[7]. Expressed in euros, the S&P 500 has gained only 0.10% since the beginning of the year due to the 11.76% decline in the dollar against the European currency. Eurozone equities underperformed US stocks, rising 3.89% (Eurostoxx) over the quarter compared with +7.85% for the S&P 500 in euro terms [5]. US long-term interest rates entered a period of easing during the quarter due to moderating inflation and a weakening labour market, which fuelled expectations that the Fed would resume its cycle of rate cuts in September. In the eurozone, the rise in German 10-year rates reflects future public financing needs linked to the implementation of the €500 billion stimulus plan, while French 10-year yields reached a new record high since 2011 at 3.6% on 25 September[5] after Fitch downgraded France's debt rating amid rising political risk. Eurozone sovereign bonds lost 0.21% over the quarter[5].

Our management guidelines for the fourth quarter of 2025

Despite many stock market indices already reaching record highs, investor optimism is at its strongest since February, according to the latest BofA survey. This is largely driven by the new growth engine represented by AI development in the US economy. The Federal Reserve has just initiated a new cycle of interest rate cuts, which should make US equity valuations more attractive, especially as earnings growth forecasts continue to be revised upwards. Donald Trump's "big and beautiful" budget law, which extends many of the 2017 tax breaks, was passed in early July.

The US labour market does not yet raise concerns: while hiring has slowed, layoffs remain moderate and unemployment is hovering near its historical low. Inflation in the US remains contained, thanks to easing labour market pressures and low oil prices. However, consumer prices could rise as higher costs linked to tariffs gradually feed through to retail prices.

Geopolitical tensions persist despite Trump's plan to resolve the Gaza crisis, while the US President appears ready to shift responsibility to Europeans for managing the conflict in

Ukraine. Global geopolitical fragmentation is deepening, as illustrated by China's Tianjin summit in early September aimed at strengthening the unity of the "Global South" against the West. Trump's tariff war is far from over, with regular announcements of new punitive measures. Furthermore, the weak legal basis of trade agreements signed since July, combined with a lack of detail on their implementation, makes them fragile.

Domestically, Trump's increasingly autocratic drift heightens political risk and deepens polarisation. The Fed's independence is under constant threat and currently survives only under judicial protection. Finally, the lofty valuations of AI-related stocks and the massive investment spending in this technology evoke memories of the dot-com bubble burst 25 years ago, even though today's backdrop differs in many respects.

In this context, we recommend maintaining a cautious investment strategy, reflected in a neutral equity exposure, strong geographical diversification, and a substantial cash allocation.

Equities

Since the second quarter, we have taken some profits on US equities, which had been tactically reinforced after the sharp stock market correction in April. We believe they are overvalued and based on promises of profitability in AI that remain uncertain. Eurozone equities remained overweight, with a continued preference for value [12], which continued to widen the gap with growth. Since the beginning of the year, the Eurostoxx value index has risen 27.75% compared with +9.10% for the growth index [13]. We have also increased our exposure to Japanese equities, which are benefiting from strong domestic economic momentum thanks to the virtuous circle of wages and prices triggered by the BoJ to pull the country out of deflation. Finally, emerging markets remain favoured, particularly Chinese equities, which outperformed all other regions with a rise of 18.66% over the quarter [14].

Rates

Global Fixed Income markets gained 0.60% in the third quarter of 2025 [15], even reaching their highest level since March 2022 on 17 September thanks to the continued decline in long-term US yields reflecting stable anticipated inflation, a labour market showing signs of fragility and, more generally, the risk of an economic slowdown in the United States. Markets are not convinced that the additional tax revenue generated by tariffs will be sufficient to finance the new budget law. We have maintained our investments in eurozone sovereign debt in anticipation of a resumption of the rate-cutting cycle if economic conditions deteriorate more rapidly than expected.

Credit

In the United States, credit spreads[16] have narrowed to their lowest level since 1998, while in the eurozone they are approaching their lowest level due to continued favourable fundamentals. Demand for credit remains strong, attracted by persistently high yields and low default rates. We also remain invested in emerging market debt, which is benefiting

from the depreciation of the US dollar. In addition, we have continued to take some profits, which we have reinvested in monetary instruments while we await greater clarity on several sources of concern, thereby ensuring we have cash reserves available to seize opportunities.

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(1) Source: State of U.S. Tariffs, 7 August 2025.
(2) Source: World Economic Outlook Update, IMF, July 2025.
(3) Source: Bureau of Economic Analysis, September 2025.
(4) Source: Eurostat: €20.407 billion compared with €39.215 billion.
(5) Source: Bloomberg, 30/09/2025.
(6) The neutral rate is the rate that neither slows down nor stimulates the economy. It is estimated by the ECB to be between 1.75% and 2.25%.
(7) Consumer prices rose by 2% year-on-year in August 2025.
(8) Macroeconomic projections, ECB, September 2025.
(9) Source: Bloomberg, 30/09/2025.
(10) Global Fund Manager Survey – BofA, 16 September 2025.
(11) The Supreme Court is expected to rule in November on the legality of the customs duties imposed by Donald Trump without the approval of Congress.
(12) A “value” strategy is when an investor looks for companies that are undervalued by the market at a given moment, i.e. whose market capitalisation is lower than it should be in
view of the company’s results and asset value. Value investors select stocks with low price-to-book ratios or high dividend yields.
(13) Source: Bloomberg, 30/09/2025. Eurostoxx Value (total return) and Eurostoxx Growth (total return) indices
(14) Source: Bloomberg, 30/09/2025.
(15) Source: Bloomberg, 30/09/2025. Bloomberg Global Aggregate index in US$.
(16) Yield spread between a bond and a loan with an equivalent maturity considered to be ‘risk-free’.

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