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Discover our convictions for the end of 2026

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Introduction

Macro Context

We entered the summer with a risk-on[1] strategy: **bullish on stocks, gold, and the short-end of the yield curve.** This decision was based on expectations of strong upcoming corporate earnings, low oil prices, and a solid macroeconomic environment.

The H1 earnings reports support our outlook, as evidenced by the upward revisions to earnings expectations for 2026:

- +5.96% since the end of June for the S&P 500 in the US.
- +1.35% for the Stoxx 600 in Eurozone.

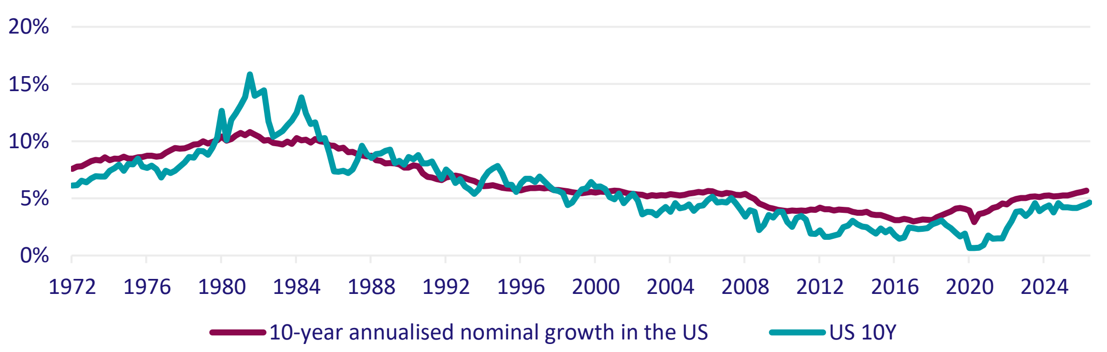
On the macroeconomic front, economic activity remains strong as confirmed by the latest PMI figures (a key indicator of a country's manufacturing sector health). On the other hand, the conflict in the Middle East has persisted with no notable progress, causing oil prices to rebound to approximately $90 a barrel. **While gold and stock indices performed well over the summer, bond markets understandably** suffered from these developments, despite support from the U.S. Treasury.

The year-end will be marked by political events that could impact the markets: US midterm elections, the budget vote in France, tensions in the Strait of Hormuz, as well as serious friction between Canada and the United States, where the Trump administration's hardline stance and threats of tariff barriers are being exacerbated by the breakdown in trade negotiations.

This environment will, however, be set against a backdrop **of strong nominal growth**, a powerful driver for equities. In the United States, S&P 500 earnings are expected to rise 31% for the year, causing the P/E[2] ratio to decline from 27x at the end of 2025 to 21x at the end of 2026.

For bond markets, conditions are likely to remain more challenging. Government deficits, massive investments in AI, and economic growth will keep interest rates under pressure. The chart below illustrates that, at present, the long end of the yield curve does not appear particularly cheap.

Valuation Model: 10-Year U.S. Treasury Yield



This environment should remain very favorable for gold (and commodities in general), as illustrated by its performance during the U.S. Treasury's intervention. It should be **unfavorable for the dollar** if the United States continues to seek to limit the rise in long-term rates. The credit market, for its part, could face some turbulence due to overall nervousness in the bond market, as well as the sharp rise in issuances by U.S. technology companies and their off-balance-sheet commitments.

François Rimeu

Senior Strategist,
Crédit Mutuel
Asset Management

[1] a positive stance towards risky assets

[2] *Price to Earnings* or price-to-earnings ratio, which measures the relationship between a share's price and its net earnings per share

Sources: Crédit Mutuel Asset Management, Bloomberg. Data as of 31/08/2026.

Money Market Management

The money market in the Eurozone is operating in a context of monetary policy tightening. In June, the ECB raised its deposit facility rate by 25 basis points (bp) to 2.25%, marking its first rate hike since 2023, in response to inflationary pressures on energy prices linked to the conflict in the Middle East.

In this environment, focusing on the short end of the curve, **money market rates remain closely anchored to the ECB's deposit rate,** with a risk premium (spread) of 5.9 bp between the €STR and the deposit rate, which we believe is consistent with the current level of excess liquidity (€2,150 billion).

At the longer end, the OIS[1] curve now prices in a 25-bp hike at the ECB's September meeting, followed by a 52% probability of another hike in December. Overall, the market anticipates a cumulative tightening of approximately 60 basis points by mid-2027, corresponding to a terminal deposit rate close to 2.80%. **At this stage, it is worth noting that the bulk of the rate-hike cycle currently anticipated by the market is expected to be concentrated over the next four to six months.**

In an environment marked by macroeconomic and geopolitical uncertainties, the **monetary segment continues to benefit from its flexibility** and its ability to respond quickly to refinancing needs as market conditions evolve. The primary market for short-term credit, which mainly targets money market funds, **remains largely dominated by floating-rate issues**, which account for approximately 80% of the volume issued for maturities of 2 or less years. This trend reflects both the investment constraints faced by certain market participants and issuers' quest for greater financing efficiency.

DRIVERS

The rate hike expected in September should automatically lead to a rise in the €STR and EURIBOR rates, **directly increasing returns for investors in money market funds.**

Strong investor demand: assets under management in eurozone money market funds continue to grow in 2026 (+€140 billion), after having already peaked at €2,065 billion at the end of 2025.

The euro-denominated commercial paper markets remain stable. **Competition among the various issuers helps maintain attractive spreads** in a money market that continues to benefit from abundant funding supply.

WARNING SIGNS

Uncertainty surrounding the budget and the French presidential election could continue to push spreads wider. We remain cautious and are waiting for more attractive levels before reinforcing our positions.

Persistent inflation in services (+3.3%) and wage growth (+3.5%) in the first half of 2026 suggest a risk that inflationary pressures could spread beyond the energy sector.

The **course of to the conflict in the Middle East** will define the trajectory for rates: an easing will cool down energy prices, whereas an escalation could intensify inflationary pressure and lead to a more restrictive interest rate path.

POSITIONING ✱✱✱✱✱

In the current environment, characterized by a rising yield curve, with a rate hike widely anticipated in September and a relatively flat curve beyond one year, **the outlook remains generally favorable for our money market funds.**

This appeal is already reflected in money market fund assets under management, which remain high, with an acceleration in inflows. At the same time, **absolute yields are among the highest seen in several years, reinforcing the attractiveness of this asset class**. Money market funds have thus consolidated their role within asset allocations, evolving from a simple temporary cash management vehicle **to a more structural component of portfolios.**

[1] Overnight Indexed Swap

Past performance is not indicative of future results.

Sources: Crédit Mutuel Asset Management, ECB, Bloomberg. Data as of 31/08/2026.

Investment Grade Credit

In the United States, long-term yields have reached multi-year highs (10-year at ~4.73%, 30-year at ~5.27 %) as the yield curve steepens. The market is thus **balancing two time horizons, anticipating a rise in key interest rates in the short term**. In the longer term, it is factoring in a rising fiscal and inflation risk premium. In our view, the increase in long term bond buybacks decided by the US Treasury will have a limited effect, as sovereign yields across the Atlantic remain high due to concerns over the sustainability of US public finances.

In the eurozone, the entire sovereign curve also remains under pressure, with the 10-year German Bund trading at around 3.25%, a level not seen since 2011, amid only modest steepening of the 2-10y segment. Fears of persistent inflation and resilient growth are fuelling expectations of two interest rate rises over the next six months. Over the summer, country spreads versus Germany widened, notably the OAT-Bund spread at 86 bps (+10 bps), with France paying the price for the deterioration in its fiscal trajectory, and the BTP-Bund spread at 81 bps (+7 bps), Italy being heavily dependent on oil from the Persian Gulf.

In Investment Grade credit, spreads are holding at their tightest levels (euro IG at 77 bps and US IG at 79 bps), confirming their strong resilience through the various bouts of sovereign rate volatility. Technical factors remain supportive (attractive carry, ETF inflows, etc.) against a backdrop of still solid corporate earnings. We will be watching primary supply in the credit market, expected at around EUR 85 billion in September, and in particular issuance from hyperscalers, whose off-balance-sheet commitments are substantial.

DRIVERS

Carry on sovereign rates is attractive, at multi-year highs.

The relatively resilient growth momentum in the eurozone is favourable for credit.

Investor demand in the European investment-grade credit market remains strong.

WARNING SIGNS

The supply of government bonds is the key factor determining the level of long-term interest rates (a massive increase in issuance, particularly in the United States and Germany).

Inflationary risks due to geopolitics (Middle East conflict, Ukraine war, tariffs, elections.

Valuations on risk assets are at **historically tight levels** (peripheral spreads, IG/HY credit and subordinated debt).

POSITIONING ✱✱✱✱✱

In terms of duration positioning, we view current levels on European sovereign debt as attractive entry **points to add exposure, with carry on sovereign rates particularly appealing**, especially on the 2-5 year segment, as we anticipate only one 25 bps policy rate hike between now and Q1 2027. **We favour eurozone core countries**, mainly Germany and the Netherlands, and remain positioned close to neutral on Spain, Italy and France, where we do not expect any significant widening during the autumn budget discussions. Further widening could nonetheless materialise in early 2027 as the presidential elections approach.

On credit, primary supply from corporates is expected at around EUR 187 billion between now and year-end versus EUR 87 billion for financials. We believe this should support the senior financials segment, where technical factors remain broadly favourable. In addition, we continue to favour quality, **defensive sectors**, **senior segments** and the **intermediate part of the curve**, maximising roll-down return* for a moderate beta, in a context of relatively flat yield and credit curves.

Past performance is not indicative of future results.

Sources: Crédit Mutuel Asset Management, Bloomberg. Data as of 31/08/2026

Financial & Subordinated Debt

CoCos[1] were the stars of the summer! Amid renewed volatility in interest rates and more hesitant equity markets, subordinated debt has enjoyed a relatively calm last few weeks. **While spread valuations have stagnated and remained stable across most credit segments—which is not surprising given their relative and absolute high valuations—CoCos remain an exception and have seen their spreads narrow** during the summer period. The Bloomberg EUR CoCos Index showed a spread of 223 bp as of August 31, representing a 19-bp narrowing since the end of June, compared with a 4-bp narrowing for the EUR High Yield Index to 277 bp and an 8-bp widening for the iTraxx Crossover over the same period.

This continued outperformance of CoCos relative to comparable credit assets stems from: (i) another season of very strong earnings reports from European banks and insurance companies, confirming the excellent financial health of issuers; (ii) **a sector perceived as being more "insulated" from current macroeconomic headwinds or the race toward AI;** (iii) **very limited refinancing needs** for the second half of 2026; and (iv) **a spread buffer that remains substantial** enough to partially absorb the volatility caused by movements in sovereign yields.

What could derail spreads for the remainder of the year? They have ultimately held up well against the steepening of the sovereign yield curve, and the absolute level of actuarial yields remains comfortable, **suggesting that "High Beta" credit funds could continue to see inflows**. Subordinated debt could therefore be a preferred allocation option heading into the fall, **although carry is now the main driver of potential performance.**

DRIVERS

The financial figures of European financial institutions remain **excellent. There are no longer any so-called "peripheral" banks.**

Investor demand for subordinated debt is strong, both in the primary and secondary markets, due to attractive yields and coupons.

The risks specific to these structures are currently low: (i) there is little need for refinancing for the remainder of the year, and (ii) the non-call risk is negligible or well identified.

WARNING SIGNS

The ever-narrowing of spreads between and within segments **leaves little scope for further tightening** at this stage.

The corporate hybrids market is evolving rapidly, with a sharp rise in net issuance. Whilst it is more diverse in terms of issuers and sectors, it includes **structures and issuers that are, at times, more aggressive.**

The risks of regulatory changes affecting AT1 CoCos are real, but we do not expect anything concrete for at least several quarters. Switzerland could, however, stand apart.

POSITIONING ✱✱✱✱✱

Subordinated debt continues to suffer from its own success, and its **still-reasonable carry** reinforces its role in diversifying a high-yield corporate portfolio, whilst offering less direct exposure to **geopolitical threats and the AI race**. We believe that **spread levels are likely to remain** within a range similar to that seen in recent months, driven by **robust demand in credit markets**. However, we believe the potential for outperformance is now behind us.

We favour €-denominated AT1 and RT1 CoCos with high reset spreads (i.e. with a higher intrinsic probability of call) issued by leading national or European issuers. We favour insurance Tier 2 instruments over banking Tier 2 instruments due to their higher bond sensitivity. For corporate hybrids, we favour defensive sectors, despite their higher valuations.

[1]Contingent Convertible Bond.

Past performance is not indicative of future results.

Sources: Crédit Mutuel Asset Management, Bloomberg, Markit. Data as of 24/08/2026.

High Yield, Convertibles & Emerging Credit

In the high-yield segment, risk premiums (spreads) ranged from 250 to 350 basis points in Europe and from 275 to 360 basis points in the United States. **Carry was the main contributor to the asset class's** performance during the first half of the year, whilst rising interest rates (a consequence of the war and rising commodity prices) had a very negative impact on performance. Emerging market high yield, and in particular Latin American credit, outperformed all other regions due to the significant weighting of energy names. The best performance over the period was recorded by convertible bonds, which rose by 20 per cent in the United States and 8 per cent in Europe, compared with between 1 and 2.5 per cent for high-yield bonds.

Corporate fundamentals remained sound, underpinned by well-managed leverage ratios, which helped keep overall default rates stable. Only emerging markets were an exception to this trend, with a slight uptick in defaults observed. Finally, in anticipation of potentially prolonged tightening of financial conditions, companies have turned to the primary market to refinance. This trend has propelled gross issuance volumes to a four-year high, with activity remaining equally buoyant across Europe and in the US.

We are approaching the start of Autumn with a degree of caution, given the accumulation of risk factors such as the conflict in the Middle East; pressures on global interest rates (with rising term premiums); and questions regarding the valuations of AI companies in the US, alongside a significant rise in their debt. The key issue that will also arise at the start of the new financial year is that of political risk in Europe, through the upcoming French elections. This rise in **economic and geopolitical uncertainties** will lead to a **tightening of financial conditions**, which is likely to impact the valuations of risky assets.

As for **convertible bonds**, we maintain an increasingly favourable view of them compared with other risky asset classes, given their valuation levels and the quality of the underlying assets. **European convertible bonds offer a better risk/return profile than their US counterparts**, which are highly correlated with technology stocks and have lower credit quality.

DRIVERS

Corporate fundamentals remain sound (leverage under control, good liquidity, limited refinancing needs).

Despite geopolitical conflicts, the **macroeconomic situation remains fairly favourable for businesses:** this is positive for default rates.

Carry remains historically attractive given the level of risk-free rates.

WARNING SIGNS

Political risk in Europe in the run-up to the French elections.

Tightening financial conditions in Europe and the United States (real interest rates have reached 2.5 per cent across the Atlantic), which could affect risky assets.

Questions over the financing of the AI ecosystem in the United States, with a steep rise in the debt levels of companies concerned.

POSITIONING

Going into autumn, **we anticipate a widening in HY spreads and are adopting a more defensive stance** than in the recent period. We also expect higher dispersion and a return of decompression, with underperformance coming from lower-quality issuers, which will suffer from rising refinancing costs. For the time being, we do not envisage any acceleration or increase in default rates.

From a sector standpoint, **we remain cautious on the sectors most sensitive to European political risk and to rising risk premia**, such as financials and cyclical consumer companies (in both Europe and the US). From a geographical standpoint, **we are also more cautious on French issuers.**

Finally, in terms of positioning along the yield curve**, we continue to favour the short and intermediate end (2 to 4 years).**

Past performance is not indicative of future results.

Sources: Crédit Mutuel Asset Management, Bloomberg. Data as of 31/08/2026.

Arbitrage Strategies

Despite a succession of geopolitical and macroeconomic events, **markets have so far absorbed the various shocks reasonably well**. After a relatively favourable start to the year, driven by resilient global growth and continued disinflation, the outbreak of the conflict between the United States, Israel and Iran in late February marked a turning point. Tensions around the Strait of Hormuz drove a sharp rise in energy prices, **reviving inflation and stagflation concerns**, particularly in Europe. The easing seen in spring subsequently allowed markets to stabilise, before tensions reappeared in July, with the Strait of Hormuz closing again and Brent briefly trading above USD 100. Despite these episodes, risk assets have proved resilient.

Monetary policy has remained at the forefront of investor concerns, with central banks having to navigate diverging inflation and growth trajectories. In this context, the Fed favoured a wait-and-see approach given a still-solid US economy, while the ECB progressively tightened financing conditions before pausing in July. Monetary policy decisions in the coming months will continue to be driven by the path of inflation and economic activity.

The US midterm elections in November will also be a key event for the end of the year, and the **persistence of geopolitical and trade risks should continue to fuel market volatility**. In this uncertain environment, the flexibility of alternative management allows for rapid adaptation to market developments and for capturing emerging opportunities.

DRIVERS

Dynamic primary market, notably in ABS, CLOs and European credit, offering selection opportunities and an attractive risk/reward profile.

Dispersion and rate volatility, favouring **relative value and curve-steepening arbitrage strategies.**

Resilience of credit, preserving opportunities in basis, spread and carry strategies.

WARNING SIGNS

US political risk, which could trigger short-term spikes in volatility but is conducive to investment opportunities.

Uncertainty in the M&A market, with macroeconomic tensions potentially limiting the number of new deals towards year-end.

Abundant bond issuance from cloud giants, **risking saturation of the market** and upward pressure on risk premia.

POSITIONING

We are entering this autumn with a **cautious, wait-and-see approach**. The low volatility seen over the summer limited the pool of opportunities in credit markets. We are therefore favouring active, selective management, anticipating a more pronounced return of volatility and dispersion, with **year-end potentially offering a richer opportunity set**, against the backdrop of the US midterm elections and their associated uncertainties. In credit, we remain positioned on the 1-3 year segment, which continues to offer attractive carry while limiting exposure to market swings.

In rates, the current environment offers greater scope for **relative value strategies**, particularly with regard to yield curve slopes. Contained inflation should allow central banks to progressively adjust their monetary policy, creating opportunities for the strategies in place. Finally, **on M&A, we remain cautious** given a US market that remains more uncertain, notably due to the regulatory and political considerations and to the volatility observed on certain deals. That said, we remain attentive to opportunities that may arise as activity picks up after the summer, while maintaining a selective and opportunistic approach.

Past performance is not indicative of future results.

Sources: La Française Group. Data as of 31/08/2026.

International Equities

Led by emerging markets ex-China and the United States, followed by Europe and Japan, the MSCI World and the S&P 500 are up 13% and 12% respectively year-to-date.

US earnings growth is being driven in part by hyperscalers, whose revaluations (OpenAI, Anthropic) accounted for half of Q2 gains.

Geopolitical tensions are reviving inflation concerns, turning attention back to the Fed and the Treasury. The rise in long-term rates worldwide — with the US 30-year hitting a 19-year high — is bringing the cost of capital back at the centre of asset allocation decisions and weighing on equity valuations. The surge in capex (USD 1,400bn in 2027) and hyperscaler bond issuance (USD 95bn this summer alone) is competing with sovereign debt issuance, pushing rates to extreme levels. While underlying demand for AI remains solid, the market is questioning the long-term profitability of these projects and the circularity of the tech ecosystem.

Against this backdrop, the market is focused on: i) the Fed's announcements at the Jackson Hole Symposium, ii) Nvidia's earnings, a bellwether for the sector, and iii) the case for stepping up diversification given the expected pickup in volatility and sector rotation ahead of the midterm elections.

Summer proved supportive for gold and gold miners. Having corrected from its sharp rally at the start of 2026, gold has stabilised around a major support level near USD 4,000/oz. Gold miners are posting solid earnings, driven by operating margins above 50%.

The Bank of Japan continues its monetary policy normalisation, supported by wage growth and sustained inflation. The US and Japan also intervened jointly in the FX market over the summer (USD 87bn) to stem yen weakness, but real household consumption is nonetheless falling for the seventh consecutive month as a consequence of inflation.

On the emerging markets side, Asia (Taiwan, Korea, China) is outperforming on strong AI infrastructure demand, while other markets are posting modest gains and India is pulling back.

DRIVERS

AI-related **productivity gains** and **expected earnings growth:** +31% (USD 360bn) for 2026 and +13% (USD 406bn) for 2027 in the United States.

Spillover of AI-driven earnings into other sectors, such as financials and adopters (industrials).

Promising themes in 'Quality Growth' or 'Blend' funds, and in the gold thematic.

WARNING SIGNS

Geopolitical uncertainty: the Russia-Ukraine conflict and tensions in the Middle East.

US midterm **elections** and French presidential elections.

Trends in real rates: Rising interest rates are putting pressure on equity valuations

Past performance is not indicative of future results.

Sources: Crédit Mutuel Asset Management, Bloomberg. Data as of 31/08/2026.

POSITIONING

Summer volatility — fuelled by profit-taking on AI names, the Chinese slowdown and geopolitical tensions in Iran — validates our **selective approach**.

As a result, the management team continues to favour stocks whose earnings quality and valuation levels offer **a risk/reward profile deemed attractive**. On the AI theme, our investments are focused on companies delivering genuine value creation today, as well as those using AI to improve their productivity.

Periods of volatility will be used as an opportunity to take positions in quality names offering positive cash-flow revision momentum.

European Equities

European markets ended the first half of the year at new highs, unfazed despite exceptional volatility. Following a Q2 dominated by the gradual normalisation of the energy crisis, **equity markets have carried their positive trajectory over the summer**. Year-to-date, the Stoxx 600 and EuroStoxx 50 are up +10.6% and 12% respectively.

The **geopolitical backdrop and the rotations seen in 2026 have driven significant volatility in markets**, with substantial dispersion both across and within sectors. Energy has been the best-performing sector, driven by higher oil prices. Technology is not far behind, with standout performance from semiconductor equipment makers, while **software names continue to suffer from a reputation tied to being the biggest losers in the AI era**. On the other hand, **consumer stocks are struggling, impacted by the resurgence in inflation** and its impact on purchasing power and by continued weakness in mainland China.

The Value style continues to be driven by Financials. The current interest rate environment, positive trends in margins and valuations keep the style attractive. Will Quality names take the lead from here? Their valuation premium has halved since 2024, which should revive investor interest given lower volatility and solid balance sheets with good earnings visibility.

During the earnings season, the **consensus revised its forecasts for 2026 upwards, notably for technology as well as banking and cyclical consumer stocks.** July's deleveraging opens up new opportunities, both in momentum and AI names and in the search for quality and growth stocks.

DRIVERS

The European market regaining investor interest: EPS* growth of over 14% in H1, a significant improvement in return on capital (margin expansion), and the record inflows in the last 10 years.

Economic growth drivers: delivery of the German plan could materialise in 2026 and should allow more cyclical stocks to regain investor appeal.

Promising themes: the AI engine is still running at full capacity despite concerns over financing capacity.

WARNING SIGNS

Political backdrop in France: the upcoming elections should generate volatility in domestic French stocks.

Inflation & energy prices: the absence of a resolution to the conflict and the blockage of the Strait of Hormuz risk perpetuating the geopolitical risk premium.

Market concentration: market resilience remains heavily dependent on the AI theme.

*Earnings per share

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Past performance is not indicative of future results.

Source: Crédit Mutuel Asset Management as of 31/08/2026.

POSITIONING ★★★☆☆

Against this backdrop, **the management team favours quality companies**, capable of navigating cyclical shifts by adapting to geopolitical developments while benefiting from the most promising segments of the economy.

The new industrial revolution is under way. AI remains a very high-conviction theme, **but we remain cautious given relatively elevated valuation levels** and early signs of exhaustion visible in the market. The whole value chain needs to be addressed accordingly, from energy suppliers to pure-play semiconductor names. **Electrification remains a key theme for capturing this structural trend.**

Market concentration nonetheless calls for caution, with the still-elevated interest rate environment making valuation levels more sensitive. **Stock picking remains key** to diversify portfolios and capture idiosyncratic stories that go beyond the themes of the moment.

Small & Mid-Caps

European small and mid caps are **up 11% in 2026 in Europe[1] and 1% in France[2]**, around 2 percent below large caps. **They are posting a second consecutive year of positive performance** following a particularly strong 2025. Despite this, **the underperformance versus large caps** has been building up since 2022, when the war broke out in Ukraine, inflation increased and so did interest rates, and has yet to be recouped.

As with large-cap stocks, the Technology and Energy sectors have outperformed, driven respectively by strong growth in Artificial Intelligence and by higher oil prices following the conflict in the Middle East. **Consumer stocks, however, have suffered** in relative terms, hit by the resurgence in inflation weighing on household purchasing power.

The breadth of the investment universe and the often-niche positioning of small caps **make it possible to gain exposure to relatively more promising parts of value chains**, and to specific promising themes such as reindustrialisation and economic sovereignty, defence and infrastructure, or energy transition and independence, and grid modernisation.

A **shift in the economic cycle is far from assured**, with European growth remaining fragile, and a backdrop of particularly high interest rates. Despite the rebound seen since 2025, **mid cap valuations remain well below those of their larger peers,** in contrast to the premium levels historically observed.

DRIVERS

Delivery on the German plan, which could start to materialise in late 2026 and should allow more cyclical German small caps to regain investor appeal.

Valuations deemed historically low relative to the rest of the market, which represent a key driver for small-cap shares to outperform in the medium term.

Promising themes well represented among small caps, which could attract investors looking for more attractive valuations

WARNING SIGNS

Geopolitical uncertainties continuing to weigh on economic sentiment.

The upcoming elections in France appear to be particularly uncertain, with a high likelihood of a divided parliament without a majority, which could have an impact on French SMEs.

Particularly high interest rate levels, weighing on valuations and on the growth companies which represent a large proportion in our portfolios.

POSITIONING ****

Against this backdrop, the management team maintains a preference for **quality and growth companies, in order to pick stocks capable of navigating cycles, that adapt to geopolitical upheaval and capture the most attractive segments of the economy.**

From a thematic standpoint, **Artificial Intelligence** remains a key focus but is subject to closer monitoring given valuations and the rapid moves seen at the start of the year. Some repositioning has also been carried out in energy stocks, in order to benefit from the challenges of energy independence and the growing demand associated with Artificial Intelligence.

Attractive valuations and strong earnings growth, captured through exposure to promising themes, allow us to approach year-end with **optimism**, while bearing in mind that the asset class will require a **risk-on market behaviour** in order to outperform the rest of the market.

[1]Market capitalisation of less than €500 million for micro-caps, between €500 million and €3 billion for small-caps, and between €3 billion and €10 billion for mid-caps

[2]MSCI Europe Ex UK Small Cap

[3]Enternext PEA PME 150

Past performance is not indicative of future results.

Source: Crédit Mutuel Asset Management as of 31/08/2026.

Outlook

'We are in the midst of the most serious energy security crisis the world has ever faced, and I believe this will reshape investment strategies on a global scale, much like the major changes the energy sector underwent following the oil crises of the 1970s.'
– Fatih Birol, Executive Director, International Energy Agency, Launch of World Energy Investment 2026

The global sustainable investment landscape is entering a new phase, in which resilience is becoming as important as efficiency and growth. **Corporate sustainability is increasingly being driven by economic and competitiveness considerations, rather than by regulation alone.**

Physical climate risks are intensifying. As of mid-August 2026, **over 600k hectares had burned across the EU,[2]** making 2026 the 3rd-worst wildfire season on record, with a potential increase of **39–200% by the end of the century as a result of climate change.[2] Global demand for fresh water is expected to rise by 20–30% by 2050.[3]** Climate adaptation is progressively shifting from risk management to capital expenditure, while dependence on water and critical minerals is becoming a key issue.

Technology is the third transformational driver. The rapid adoption of AI is reshaping emissions trajectories across many sectors. Combined with heavy industry, electric vehicles and HVAC (Heating, Ventilation, and Air Conditioning), it is **pushing global electricity demand to grow by 3.6% a year through 2030**, 30% faster than over the past decade.[4] The IEA estimates **that global energy investment will reach USD 3,400bn in 2026**, with close to two-thirds directed towards renewables, nuclear, grids, storage, energy efficiency and electrification.

DRIVERS

In 2026, European defence spending will rise to EUR **454bn (+30% vs 2024),** representing **2.4% of EU GDP.[5]** This cycle is creating long-term opportunities in strategic sectors, beyond the debate over sustainable investment.

By 2030, electricity consumption by data centres will double, driven by USD 550bn of grid investment from 2026 onwards.[4] Accelerating investment in grids, storage and digital infrastructure should create opportunities across industrial and energy ecosystems.

The EU AI Act introduces **new transparency rules** and already bans nine high-risk practices. The requirements for high-risk systems will be progressively implemented through 2028, reinforcing the need for responsible governance.

WARNING SIGNS

Physical climate risk is now being repriced in real time. **Europe is expected to need to invest around EUR 70bn a year through 2050 in climate adaptation**, in order to avoid losses that could reach **7% of GDP.[6]**

The 2026 reform of the EU Emissions Trading System (EU ETS), which strengthens the link between carbon, competitiveness and investment, in light of the target of **cutting emissions by 90% by 2040[7].** Companies managing their climate risks should be better positioned.

The concentration of supply chains is undermining defense, automotive, energy and technology sectors. China's control over rare earths **threaten $6.5 T/year of downstream production located outside China,[4]** placing mining security at the heart of the transition risk.

POSITIONING ★★★★☆

The thematics above describe an environment in which **resilience is becoming a source of competitive advantage**: climate risks are being priced into insurance, resource dependencies into markets, and energy security into government policy. The gap between companies that manage their exposures to these factors well and those that do not, should continue to widen.

This outlook supports our selective approach, favouring companies with durable competitive advantages, disciplined capital allocation and exposure to long-term structural growth themes, which we believe are best positioned to generate attractive long-term returns for investors.

[1]World Bank (2026). Commodity Markets Outlook.

[2]Current wildfire situation in Europe, Joint Research Centre, European Commission; Potsdam Institute

[3]UNESCO (2026). UN World Water Development Report 2026.

[4]IEA (2026). World Energy Investment 2026; Electricity 2026; Electricity Mid-Year Update 2026; Energy and AI; Global Critical Minerals Outlook 2026.

[5]European Defence Agency (2026). EU Defence Spending.

[6]European Commission, DG CLIMA (2026). Climate adaptation investment needs study, January 2026.

[7]EU ETS Reform proposal, July 2026

[8]EU AI Act, European Commission, Aug 2026

Past performance is not indicative of future results.

Source: Crédit Mutuel Asset Management as of 31/08/2026.

Conclusion

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CIO – Crédit Mutuel Asset Management

The macroeconomic outlook remains undeniably complex and polarised, caught between short-term risks and structural sources of support.

On one hand, the **trajectory of long-term bond yields**, exacerbated by unresolved geopolitical tensions in the Middle East, poses a downside asymmetric risk to global growth. Persistent uncertainty over the normalisation of commodity flows through the Strait of Hormuz is fuelling concerns over a significant and lasting rise in oil prices. Such a supply-shock scenario would force central banks to extend their restrictive monetary policies, maintaining **stagflation risk** at the heart of concerns.

On the other hand, substantial supportive factors are helping offset these pressures. On the political front in the US, the upcoming midterm elections encourage the Trump administration to **contain energy prices** in order to preserve a majority in Congress. This is accompanied by the intention to reduce mortgage rates, with the Treasury showing a willingness to deploy unconventional measures. More broadly, global economic activity continues to benefit from **resilient consumer spending**, a **solid labour market**, and a **massive investment cycle dedicated to AI**, a driver of tangible medium-term productivity gains.

It is precisely in this mixed macroeconomic context that the microeconomic picture is proving to be remarkably robust. The **Q2 earnings season** has been exceptionally **strong on both sides of the Atlantic**, surprising much of the financial community with its resilience.

Earnings growth has reached its highest level in nearly five years, coming in at **+33% year-on-year in the United States** and **+23% in Europe**, comfortably above market consensus. This momentum is not confined to the energy sector alone: excluding this segment, underlying growth remains particularly robust, at **+28%** and **+11%** respectively. Financials and Technology sectors were the main drivers of these positive surprises.

Given encouraging corporate outlooks, analysts have broadly revised earnings-per-share (EPS) forecasts upward for the coming financial year. As a result**, earnings growth should remain the key catalyst for equity market performance in the second half**, while multiple expansion will continue to be constrained by persistently elevated interest rates.

In conclusion, in an environment where stagflation represents the main market risk, uncertainty is no reason to stand with arms crossed. Earnings growth provides equities with a key differentiating factor and protection that has historically been superior to that offered by fixed-income securities.

POSITIONING BY ASSET CLASS

ALTERNATIVE RESERVE ASSETS (GOLD) AND CASH: ****

The appeal of this asset class is supported by accelerating purchases from the People's Bank of China (PBOC) and by the US Treasury's unconventional interventions aimed at controlling the yield curve. In parallel, we are maintaining a strategic cash position in order to preserve our operational flexibility.

EQUITIES ***

We maintain a slightly positive bias on this asset class. The outperformance of equities versus bonds should continue, supported by the quality of microeconomic fundamentals.

FIXED INCOME AND DURATION **

We are maintaining heightened vigilance on duration risk. Upward pressure on long-term bond yields is set to persist, fuelled by the substantial volume of upcoming sovereign debt issuance.

CREDIT AND EMERGING MARKETS **

We are adopting a more cautious stance on credit risk and are taking profits on emerging market sovereign debt. The tightening of US dollar liquidity, driven by rising Treasury yields, is weakening this segment, while current spreads no longer offer an attractive risk premium.

Source: Crédit Mutuel Asset Management as of 31/08/2026

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