

OUTLOOK

Conditions remain favorable

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Political tensions and market nervousness: tech at the heart of concerns

October was another turbulent month for US politics for several reasons.

Tensions between the United States and China have indeed resumed after China stopped exporting rare earths, giving rise to threats of sharp tariff increases by the Americans. Once again, more fear than pain since after negotiations, it seems that the worst has been avoided, at least for a year. Markets have become accustomed to the trade tribulations between the world's two largest economies and assumed that the worst-case scenario would, in theory, always be avoided, as evidenced by the muted market reaction to this episode.

On the domestic political front, the Democrats and Republicans are still failing to agree and are thus extending the shutdown. Historically, the consequences of a shutdown are negligible from a macroeconomic point of view but it is not impossible that this will add to the current nervousness in markets if it lasts further. The 35-day 'record', held by Trump's last presidency, is likely to be broken this time as things seem to be stuck at the moment.

Why are we talking about market nervousness? This is because, despite a generally positive earnings season for companies in both the United States and the Euro Zone, the market now tends to take a heavy toll on bad news. In fact, since the beginning of the season, companies that disappoint in both revenue and earnings, on average underperform by 6% at the time of publication (in the United States). According to UBS, this is the worst 'penalty' suffered by underperforming companies since 2005.

The reasons for this nervousness are probably multiple, but some seem more obvious than others. Geopolitical uncertainty probably explains

some of this volatility in the very short term, but the explanation seems too 'easy.' The concentration of returns on tech and AI, and concerns about the profitability of AI investing, seem to us to be a more relevant explanation, especially given current valuations. Meta's results, weighed down by massive spending on artificial intelligence, are a good example of what is scaring investors today. Massive bond issues by Meta (\$30 +) and Alphabet (\$20 +) could be seen as signs of some excesses.

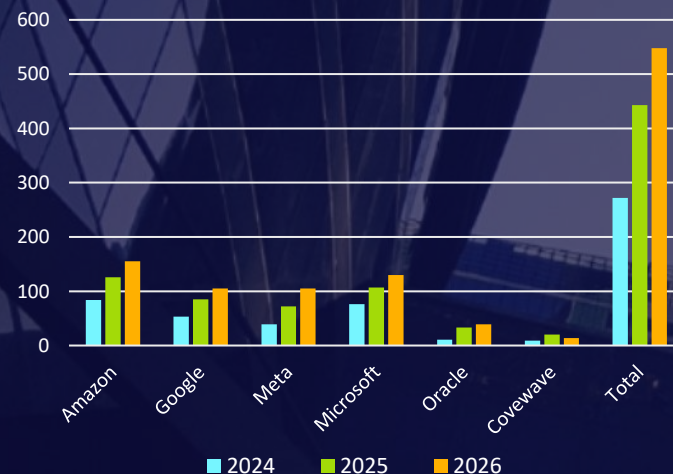
Yet in our view it is still too early to worry. Hyperscalers investments will continue at least until the end of 2025, Nvidia says it has a full order book for 6 quarters (!) and, above all, the results are still there. Overall, the US tech sector saw its results surprise 10% upwards over the 3rd quarter to reach an earnings growth of 25.9% over 12 months. By way of comparison, the S&P 500 ex tech figure is only 5.8% (as of 31/10).

« Shutdown » periods

Year	President	Days
1976	Gerald Ford	10
1977	Jimmy Carter	12
1978	Jimmy Carter	17
1979	Jimmy Carter	11
1981	Ronald Reagan	2
1982	Ronald Reagan	1
1983	Ronald Reagan	3
1984	Ronald Reagan	2
1986	Ronald Reagan	1
1990	George H. W. Bush	3
1995	Bill Clinton	5
1996	Bill Clinton	21
2013	Barack Obama	16
2018	Donald Trump	3
2019	Donald Trump	35
2025	Donald Trump	34

Source: Cr dit Mutuel Asset Management , Bloomberg, data as of 04/11/2025

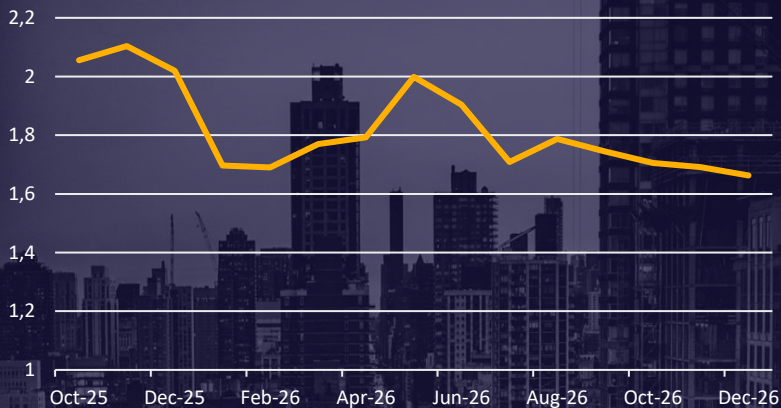
Amount invested in « hyperscalers » (in Billion \$)



Sources : Morgan Stanley, October 2025

A promising outlook but central banks remain cautious

Euro Inflation Fixing



Sources : Crédit Mutuel Asset Management, data as of 04/11/2025

Another key point at the end of October was that **central bank meetings did not upset the current balance**, although the Fed surprised the market by announcing that a potential **December rate cut is 'far from a given.'** This statement goes in the direction of what we expected: A reduction in the Fed's expectations of rate cuts in 2025-2026. Inflation is still above target and the labour market still seems to be slowing down very gradually while activity figures remain robust, which gives a reason for Jerome Powell not to rush.

On the ECB side, not much is changing, with inflation still slightly above target and economic conditions more resilient than expected. The European institution seems to be pressured to wait and we do not think there is much to expect before March. By this date, the negative base effects will probably have lowered inflation to 1.7-1.8%, which could open the door to a further rate cut if growth disappoints.

Finally, nothing new in France except for a positive surprise with Q3 GDP at 0.5% vs. an expected 0.2%. However, **we are not complacent because this good news comes from a drop in imports, which is not a very encouraging signal in the medium term.**

The context therefore remains quite similar to the one we have been describing in recent months: A generally **good economic environment which in theory makes us want to opt for a positive allocation to risk assets but valuations are still not encouraging. We are maintaining our positive view on emerging market equities and gold.**

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A potential December rate cut is 'far from a given', according to the Fed

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Asset Class

Outlook

Strategic Vision

EQUITY



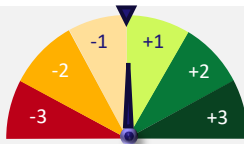
Bias remains slightly positive through emerging market equities. Earnings announcement momentum still appears positive, particularly in the U.S.

CREDIT



No change here either, with a view that remains slightly positive to capture the still very strong demand.

RATES



Caution on U.S. rates: rate-cut expectations seem too high in our view. Little to expect from the ECB before year-end.

November Outlook

Growth momentum remains positive, but this month we need cannot ignore the growing market nervousness. Investors know that historically a shutdown has little impact, but after more than 30 days of gridlock, the lack of data is starting to be felt. Nevertheless, we maintain a slightly positive outlook.

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AGENDA



**End of the Shutdown
During November?**



**EU-CELAC summit
November 9th-10th**



**US Inflation
November 13th**



**G20
November 22nd and
23rd**



**2026 EU budget
November 27th**