Asset Management Market Flash: Pressure is mounting on risk assets

25 September 2026

- **Persistently high interest rates are dominating the markets: rising U.S. yields are increasing pressure on growth stocks and risky assets.**
- **Europe remains vulnerable due to energy risks and rising tensions over French debt, for which borrowing costs are increasing significantly.**
- **We are continuing to focus our portfolio allocation on short- to intermediate-term bonds and remain positive on stocks, particularly U.S. stocks, while we have begun to take some profits.**

The main concern for markets this week was the higher-for-longer scenario for interest rates.

Rising government bond yields, notably in the US, rekindled fears of a more restrictive monetary environment that would prove damaging for risk assets for some time. Yields on 10-year US Treasuries climbed to 5.20% and the 2-year yield moved above 4.90%. Yields on the 10-year German Bund also rose sharply. The tension reflects better-than-expected US indicators, soft demand at the week's Treasury auctions and a persistently restrictive Fed. Growth stocks suffered, the US dollar rose and gold came under pressure.

And yet the week had begun with an equity market rebound led by AI stocks following the success of Meta's personal assistant, Muse. The tool's ability to optimise certain recurrent consumer expenses bolstered the idea that AI agents were beginning to offer concrete solutions. But worries that the US economy was overheating coupled with the ongoing Middle East conflict wiped out initial gains and took global indices back to where they had started.

Europe underperformed due to risks of fresh energy tensions. According to Politico, the US is considering banning diesel exports. But that move could have the opposite effect. US refineries are already running at close to 94% of capacity and would not produce more fuel while diesel, petrol and kerosene are produced together. That could reduce global supply and exacerbate price rises, especially in Europe.

France is also being closely watched by bond markets. Yields on the 10-year OAT (French government bond) are flirting with 4.70%, up from 3.73% only three months ago, and the spread with the German Bund is now around 100bp. Yields on France's debt are now higher than on Italian government bonds, a token of increased focus on the fiscal trajectory. France's deficit this year is now seen at 5.2% of GDP, the negative primary balance at 3.7% and debt at close to 120% of GDP so the situation is becoming strained. France's long debt maturity at low average interest rates offers some respite but the refinancing situation will gradually worsen. A crisis is unlikely in the short term but the danger is that refinancing costs will rise for some time and gradually reduce the government's leeway.

Elsewhere, the Donald Trump-Xi Jinping meeting only brought limited relief. Extending the trade truce offers companies some respite but tensions persist on customs duties, semiconductors, supply chains and rare earths. Washington is sticking with its tech and tariffs pressure while Beijing still holds significant leverage over rare earths. The truce is more pragmatic rather than indicative of a genuine rapprochement.

We continue to look for carry opportunities in short to medium term maturities with total return profiles that remain asymmetrical at these levels. PCE data will be week's main focal point. We remain upbeat on equities, and especially in the US, but have started to take some profits. Being underexposed to the US dollar makes sense given valuation levels, fiscal uncertainties in the US and Europe and geographical diversification in our portfolios.

European equities

European markets remained mired in an unfavourable environment dominated by the ongoing energy risk premium and tighter financial conditions. Despite numerous diplomatic initiatives to solve the Iranian conflict, the lack of any clear de-escalation sent Brent crude above $100 and fuelled strong volatility in European gas prices. Elsewhere, September's PMI data showed that Eurozone activity was proving more resilient than expected with improvements in both services and industry. This is a pleasant surprise but is not necessarily good for equity markets insofar as a sharp upturn in input prices rekindles inflationary worries and reinforces expectations that the ECB will continue to tighten.

In company news, consumer discretionary remained under pressure: **H&M** and **JD Sports** referred to cautious demand, intense promotional competitions and increased risk over margins. **Trigano** showed more resilience thanks to rising camping car orders but visibility is limited due to wait-and-see consumers and some soft markets, especially France. The autos sector is still being hit as rising EV sales help Chinese manufacturers gain market share, putting pressure on European manufacturers' volumes and prices. In contrast, industrials and structural growth plays are benefiting from more favourable catalysts. **Schneider Electric**'s bid on **Shelly** will reinforce its exposure to connected buildings. **Bureau Veritas** raised its growth targets thanks to M&A and the development of AI services. **GTT** continued to broaden its LNG outlets and services by winning its first order in Chinese river transport. In healthcare, positive clinical trials for **Roche's** nephropathy treatment should boost its pharma portfolio potential even if the detailed data have not yet been released. Strategic considerations and consolidation drove financials. The possibility of a **Crédit Agricole** – **UniCredit** bid on **Banco BPM** is still a matter of speculation. **Société Générale** showcased its leverage for growth and cost cutting. The Arnault family's simplification project offers specific support for Christian Dior.

US equities

The S&P 500 and Nasdaq 100 rallied, gaining 0.9% and 3.5%. But the Russell 2000 shed 1.4%. The US labour market stayed resilient with weekly jobless claims slipping to 198,000 but the yield on 10-year US Treasuries flirted with pre-financial crisis levels at 5.2%.

Tech jumped 2.92% and the **SOX** index soared by 7.7%. **Intel** (+16.5%) and **AMD** (+15.4%) benefited from fresh optimism on AI equipment makers and memory/chip bottlenecks. **META** jumped 14.1% after Muse, its new autonomous agent and personal assistant, became the top downloaded app in the US and the group unveiled new connected eyewear. However, **Oracle** (-7.3%), which has a fragile balance sheet, suffered from rising interest rates and the *force majeure* notice served to its developer **Blue Owl Capital** over the Project Jupiter and delays in building a New Mexico data centre.

Energy (-2.3%) led declines despite oil hovering around $100 amid the ongoing Middle East conflict. The Donald Trump-Xi Jinping meeting fuelled hopes for an end to the hostilities and additional Saudi oil

deliveries via Oman raised the possibility of some easing in supply constraints. That took **Chevron** and **ConocoPhillips** 3.3% and 3% lower.
Healthcare (+1%) performed well thanks to **Eli Lilly** (+2.5%) which rose on FDA approval for its insulin injection for patients with type 2 diabetes.

Financials shed 2%. Banks and private credit plays were hit by rising long-term rates and fears that autonomous agents like **META**'s muse might impact their business model. **JP Morgan** fell 3% and **Goldman Sachs** was off 2.8%, a decline which was amplified by the bank's cautious comments on currency, commodity and fixed income trading.

Emerging markets

The MSCI EM was up 1.28% in USD on the week to Friday. Korea, Taiwan and China rose 5.42%, 1.89% and 0.21%; India, Brazil and Mexico were down 1.32%, 1.01% and 0.46%, respectively.

During Xi's visit to Washington this week, Treasury Secretary Scott Bessent announced a two-month extension of the trade truce to January 2027 vs market expectations for an extra 6 months. The PBoC held the 1-year and 5-year LPRs at 3.00% and 3.50% for a 16th month, citing the strong renminbi as a constraint on easing. The 15th Five-Year Plan for pharma pivoted the sector from scale to innovation. The Cyberspace Administration opened a data-security probe into DeepSeek and Moonshot AI over user data allegedly routed to Anthropic's Claude. Alibaba unveiled the Zhenwu V900 AI chip (3x its predecessor, mass production target for the first quarter of 2027) and a target of 20GW of global data-centre capacity by 2032.

In **Taiwan**, August export orders jumped 71.4% YoY to— the fastest growth since 2010, well above the +63.0% consensus, with US orders up 88.9%. August industrial production cooled to +23.47% YoY from +25.61%, or below the 26.70% rise estimated, though computers, electronics and optical parts were still up 95.71%.

In **South Korea**, the September 1-20 flash showed working-day-adjusted exports jumped 89.8% YoY — a record for the period, with memory-chip exports alone up 350.7%. Consumer confidence rose to 106.6 in September from 104.5. On policy, Donald Trump and Lee Jae Myung hailed "significant progress" on the $350bn investment package at the UN, naming a $22.3bn gas-fired power project in Texas as the first.

In **India**, flash PMIs rebounded — composite 56.5 from 54.3, manufacturing 55.7 from 52.8 (a seven-month high) and services 55.8 from 54.1 An IRDAI consultation paper on insurance-distribution commissions cuts hit bancassurance-exposed lenders. The week's landmark was the National stock exchange's listing. The Government of Karnataka approved a five-year policy targeting 1GW of cumulative IT load and 10-12% of India's AI ready capacity by 2031.

In **Mexico**, the central bank kept the key rate at 6.50% as expected. First-half September CPI ran hotter at +0.33% (est. +0.28%), lifting annual inflation to 3.42% from 3.26% on non-core energy and farm items.

In **Brazil**, the BCB's Monetary Policy Report cut 2026 GDP to 1.8% from 2.0%, citing tight policy, and sees the slowdown extending into 2027. On fiscal matters, papers sent to Congress raised the projected gross-debt peak to 89.7% of GDP in 2030 from 87.8% in April, against primary-surplus targets of 0.25% of GDP in 2026 and 0.5% in 2027.

Corporate debt

Bond yields moved sharply higher again following PMI data in Europe and especially in the US where they beat expectations. The data reinforced the idea that the Fed could raise rates again. Hopes that talks between Iran and the US would resume sent Brent crude back below $100 at the beginning of the week but were dashed by both countries making very strong statements at the UN's General Assembly. As European interest rates continue to climb, France's government will find it trickier to produce a 2027 budget draft.

Markets are increasingly focusing on France's financial straits and the OAT-Bund spread broke above 110bp. It was a choppy week for Europe's bond markets as a whole. Yields on Germany's 10-year Bund rose 8bp to 3.6% and credit spreads widened. Investment grade and high yield indices lost 0.3% and 0.4%, respectively and bank and insurance company CoCos ended the period 0.75% lower. But despite widening spreads and rising yields, conditions remained largely favourable for new issuance.

Société Générale, Nationwide, **Deutsche Bank** and **mBank** all sold CoCos. In corporate new issuance, **Bayer** raised €2bn with a hybrid bond in two tranches. In the High Yield segment, **Softbank's** massive new deal raised around $11.1bn in seven euro and US dollar tranches.

GLOSSARY

• Investment Grade: bonds rated as high quality by rating agencies.

• High Yield: corporate bonds with a higher default risk than investment grade bonds but which pay out higher coupons.

• Senior debt benefits from specific guarantees. Its repayment takes priority over other debts, known as subordinated debt.

• Debt is considered to be subordinated when its redemption depends on the earlier payment of other creditors. To offset the higher risk, subordinated Senior debt has priority over other debt instruments.

• Tier 2 / Tier 3: subordinated debt segment.

• Duration: the average life of a bond discounted for all interest and capital flows.

• The spread is the difference between the actuarial rate of return on a bond and the rate of return on a risk-free loan with the same maturity.

• The so-called "Value" stocks are considered to be undervalued.

• EBITDA: Earnings before Interest, Taxes, Depreciation, and Amortization.

• CTA: quantitative strategy which uses futures to invest in a wide range of financial assets, including equity indices, short-term and long-term interest rates, currencies, and commodities.

• The PMI, for "Purchasing Manager's Index", is an indicator of the economic state of a sector.

• AT1s belong to a family of bank capital securities known as contingent convertibles or “Cocos”. Convertible because they can be converted from bonds to shares (or depreciated entirely) and contingent because this conversion only occurs if certain conditions are met, such as the issuing bank's capital strength falling below a predetermined trigger level.

• RT1s: perpetual bond issues with early redemption possible after 10 years. Coupon payments are discretionary and non-cumulative.

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