



Asset Management Market Flash: The rediscovery of diversification benefits

23 October 2026

- **Risk assets declined amid concerns over technology and AI, as well as geopolitical tensions.**
- **Risk aversion supported government bonds, while PMIs confirmed the fragility of the European economy. In France, the OAT-Bund spread reached a record high of 172 basis points.**
- **Rising energy prices are increasing stagflation risks in Europe, while the price of gold fell by 3%.**

The week was dominated by a sharp sell-off in risky assets, driven mainly by concerns surrounding technology stocks and AI, against a backdrop of persistent geopolitical tensions in the Middle East and high energy prices. The Nasdaq 100 fell by 1.9% over the week, experiencing a particularly challenging session on Thursday which saw its sharpest daily decline since June. The S&P 500 performed better, with a fall of just 0.4%, while European shares lost 0.5%. The Japanese market was hit hardest, with the Nikkei falling by 3.4 %, weighed down by both technology and financial stocks. Emerging markets also suffered, with the MSCI Emerging Markets Index falling by 2.6 %. However, by the end of the week, US futures showed a slight rebound, suggesting an attempt at stabilisation after the technology sector's sharp correction.

This risk-off sentiment supported government bonds, with the US 10-year yield falling by nearly 16 basis points and the German Bund yield by 13 basis points over the week. Japanese bonds also benefited from safe-haven flows, despite persistent expectations that the Bank of Japan would continue its monetary tightening, with a rate rise as early as December still on the cards. In Europe, economic data exacerbated the trend: the French and German PMIs came in weaker than expected, with the French composite PMI falling to 48.4. These figures reinforce the view of a weakened European economy and provide support to the short end of the yield curves.

France remains a major area of concern on the bond markets. The spread between the French OAT and the German 10-year Bund reached 172 basis points, an all-time high. Oil prices above \$110 a barrel are heightening concerns about the fiscal outlook and the sustainability of French debt. This deterioration comes as credit spreads have also widened globally, reaching their highest levels in seventeen months. In the foreign exchange markets, the euro fell below \$1.12 after poor French data was released, while the yen lost some of the gains associated with its safe-haven status.

At the same time, the price of Asian LNG reached its highest level since 2022, against a backdrop of fears regarding supplies via the Strait of Hormuz. This rise in energy prices is fuelling a risk of stagflation that is particularly damaging for Europe. Conversely, gold did not fulfil its usual role as a safe-haven asset: it fell by 3 % and dropped back below \$4,000 an ounce, affected by the strength of the energy sector and concerns over ETF flows.

Against this backdrop, we have reduced our relative equity exposure to technology and AI themes through geographical diversification but remain constructive whilst seeking entry points.



We have made profits following the sharp fall in yield curves, as the short end still appears particularly attractive to us, given the current potential of carry and roll-down strategies, whilst duration can provide protection in the event of a more pronounced deterioration in growth. We remain bearish on the dollar, primarily due to our views on monetary policy, and bullish on gold, which could once again become a safe-haven asset in this turbulent environment.

European equities

It has been another busy week for third-quarter earnings releases in Europe. Whilst expectations are high, with profit growth forecast of around 25 % year-on-year and continually revised upwards in recent months, the initial results are broadly in line with forecasts: more than a quarter of the companies in STOXX Europe 600 have reported their results and, overall, have met expectations. Market reactions, however, remain more mixed, with investors penalising companies whose comments on the coming quarters appear more cautious.

On the macroeconomic front, pressure on French assets has intensified once again. The yield on the 10-year OAT has exceeded 5 %, whilst the yield spread with the German Bund has crossed the 170-basis point mark, reflecting persistent market concerns about France's fiscal trajectory.

On the micro front, earnings reports were particularly strong in the electrification and data center sectors. **ABB** continues to post growth in the data center sector, whilst **Rexel** significantly exceeded expectations in the third quarter and raised its full-year targets. Market reactions were nevertheless mixed, against a backdrop of sporadic fears regarding a possible slowdown in the AI sector. Among industrial companies, **Schindler** performed better than expected thanks to growth driven by both prices and volumes, in contrast to **Atlas Copco**, which was held back by weakness in its industrial compressor business despite strong momentum in its semiconductor equipment. In the aerospace and defence sector, **Safran** disappointed despite revenue in line with expectations, with investors concerned about a sequential slowdown in the civil aftermarket. Conversely, **Saab** posted excellent results, with order intake exceeding expectations and a record order book.

In the luxury sector, **Hermès** disappointed with growth below expectations, driven mainly by leather goods, whilst **Kering** continues to be held back by the lack of a recovery at **Gucci**. **L'Oréal**, on the other hand, confirmed its strong momentum with growth of over 6 % for the third consecutive quarter. Finally, in the healthcare sector, **UCB** significantly raised its full-year outlook, buoyed by the very strong performance of **Bimzelx** in the United States. **Roche** reported solid figures and confirmed its targets. In logistics, **ID Logistics** recorded a third consecutive quarter of accelerating organic growth, driven by a high volume of new projects. **DSV** reassured the market regarding the gradual normalisation of its road transport business following the acquisition of **Schenker**.

US equities

US equity markets ended the week on a mixed note. The **S&P 500** remained virtually unchanged (+0.1 %) and the **Russell 2000** rose by 2.3 %. The rally in artificial intelligence-related shares at the start of the week was wiped out, following reports that reignited concerns over the financing of AI investments. **WTI** remained virtually unchanged (+0.5 %) at \$110 per barrel, despite Houthi strikes on Saudi oil facilities.

The technology sector fell by 0.6 %. The **SOX** semiconductor index fell by 3.6 %, following a 6.7 % drop, its sharpest decline since June. The fall was triggered by **Meta** (-8.5 %), whose free cash flow turned



negative for the first time since 2012 due to its spending on AI. New-generation cloud providers were once again hit hard, with **CoreWeave** (-9.4 %) among them. **Lam Research** (-12.8 %) reported record revenue of \$8.2 billion, slightly above the consensus estimate (+1 %), but its guidance failed to allay concerns about the semiconductor equipment cycle. Conversely, **Texas Instruments** (+1.1 %) beat expectations, with EPS (earnings per share) exceeding the consensus (+9 %) and fourth-quarter forecasts higher than expected.

M&A activity remained buoyant in the software sector. **Salesforce** announced the acquisition of **Braze**, a customer engagement platform, for approximately \$5.7 billion. The offer represents a 58 % premium on the latest closing price. The deal values **Braze** at around 5.3 times its expected turnover for the 2027 financial year. This is the second significant deal in the software sector following CCC Intelligent Solutions' \$6.1 billion takeover bid led by a consortium of investors (GTCR and Elliott Investment Management).

The healthcare sector outperformed the market (+2.6 %), buoyed by a rotation towards defensive stocks. **Intuitive Surgical** (+4.0 %) reported adjusted EPS above the consensus (+13 %). The share price initially fell at the open, weighed down by a \$450 million charge relating to an antitrust dispute and planned price cuts on certain instruments, before rebounding. Conversely, **Thermo Fisher** (-2.0 %) fell despite adjusted EPS beating the consensus (+4 %). **Abbott** (-2.3%) reported earnings per share in line with the consensus but lowered its full-year sales growth forecast to around 6 %.

The consumer staples sector also rose (+2.2 %), with **Procter & Gamble** (+4.6 %) reporting results that beat expectations, despite a warning about rising costs.

Emerging markets

MSCI EM was down 2.76% in USD terms as of Thursday. Brazil, Mexico, Korea, India, Taiwan and China were down 0.29%, 0.40%, 1.57%, 2.05%, 2.48% and 5.57% respectively.

In **China**, 3Q GDP grew +4.5% Y/Y (est. +4.4%; 2Q +4.3%), keeping the full year within Beijing's ~5% target, with September retail sales the standout at +1.1% (est. +0.5%) and industrial production in line at +5.5%, SAMR summoned Alibaba and other ecommerce platforms over product quality. Government proposed export controls on 23 AI technologies, including large-model weights and advanced chip designs. Citi group received approval to launch a wholly owned securities business in China, ending a nearly 5-year journey marked by regulatory friction in both Washington and Beijing. Earnings season kicked off with industry companies highlighting margin pressure on higher commodity and freight cost together with export VAT rebate cut headwind. CATL's 3Q net income missed market expectations, creating concerns on future profitability trend.

DeepSeek raised ~\$15B, with Tencent and CATL among the largest backers, ahead of a planned 2027 IPO.

In **South Korea**, the BOK held at 3.00% (unanimous, in line) after hikes in July and August but signalled more tightening. Neocloud Elice closed its debut down 32%, the worst for a sizable Korean IPO

In **Taiwan**, September export orders rose +62.4% Y/Y (est. +61.7%), with orders from the US up +79.4% and electronics and ICT close to 80% of the total. Chroma ATE posted record 3Q revenue up +180% Y/Y, ~10% above estimates, on AI server power testing, energy storage and semiconductor/photonics.

In **India**, September core sector output accelerated to +7.9% Y/Y from +4.8%. HDFC Bank's 2QFY27 net profit rose +4.7% Y/, in line. ICICI Bank beat with net profit up +20.1% Y/Y, helped by a provision reversal



on its agri book, while its net interest margin fell to 4.18% from 4.36%, with management pointing to next quarter as the bottom. Eternal reported a strong quarter with beat on growth and guided for further acceleration.

In **Mexico**, Inflation for the first half of October rose to 3.62% Y/Y (est. 3.59%) from 3.49%. August retail sales beat at +3.3% Y/Y (est. +2.0%) and +1.2% M/M.

In **Brazil**, October IGP-10 rose +1.76% M/M (est. +1.37%), or +5.02% Y/Y, and the BCB is reportedly preparing income-based credit limits to curb household debt. A Bolsonaro adviser said Petrobras would not be privatized and would get broad freedom to reshape its portfolio. Bradesco reported in line net profits up 15% yoy, 16% ROE, driven by strong loan growth of 11% yoy.

In **Indonesia**, After MSCI's 16 October warning authorities met MSCI and pledged reforms, including excluding stocks with highly concentrated ownership from the benchmark and halving the daily downside circuit-breaker limit.

Corporate debt

A pronounced risk-off tone gripped markets this week, driven by three converging forces: a sharp sell-off in AI-related equities, escalating geopolitical tensions surrounding the US-Iran conflict, with crude oil trading near \$110 per barrel, and a deepening fiscal and political crisis in France. Global corporate credit spreads widened to 129bps, their widest level since May 2025.

The Bund rallied strongly on safe-haven demand, with the 10-year yield falling by 12bps over the week to 3.33%, while German real yields moved towards their lowest closing level in two months. The OAT-Bund spread widened by around 24bps over the week to 172bps, after reaching a 15-year intraday high of 160bps.

All euro credit segments widened materially, with the move accelerating mid-week. High yield and hybrid bonds bore the brunt of the risk-off move: euro investment-grade spreads widened by 6bps to 77bps, with insurance underperforming (+13bps) and healthcare outperforming (+1bp). Euro corporate hybrid spreads widened by 19bps to 192bps, while euro high-yield spreads widened by 30bps to 348bps, with TMT underperforming (+65bps) and energy outperforming (+15bps).

Sovereign bonds and investment-grade credit posted modestly positive returns, as the Bund rally offset wider spreads. High-yield and hybrid bonds delivered negative returns, in line with the widening in spreads.

Despite the wider spreads, flows into euro credit ETFs remained positive during the week, totalling €6.7bn for euro investment-grade credit and €364m for euro high yield.



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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