LETTER FROM THE CIO AM

MARKET ANALYSIS AND PRINCIPAL INVESTMENT THEMES - SEPTEMBER 2026

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A New Paradigm for the Markets: Active Management Matters More Than Ever.

Resilient Growth, Persistent Inflation

Just a few months ago, the outlook seemed relatively clear: the slowdown in inflation was expected to allow central banks to gradually support the economic cycle through rate cuts. That outlook has now faded into the past.

In both the United States and Europe, the resilience of the economy and the return of inflationary pressures have led central banks to resume their monetary tightening policies. The Fed raised rates by 25 basis points in September, while the ECB had taken the same step a few days earlier. But beyond these decisions, it is above all the shift in the direction of monetary policy that, in our view, is of particular importance.

Growth is not just holding steady. It is robust, particularly in the United States, and the rise of artificial intelligence is driving growth across many sectors. Furthermore, inflation remains a clear concern. Central banks must remain vigilant, and markets must learn to adapt without the ongoing support of accommodative monetary policy. Against this backdrop, we look ahead to the months to come.

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In the United States, the economy remains too robust to warrant maintaining the status quo in monetary policy, let alone cutting interest rates, as Kevin Warsh has argued. The Federal Reserve's decision on September 16 marks a true paradigm shift. The Fed raised its benchmark interest rate by 25 basis points, bringing it to 3.75%–4.00%, for the first time since 2023. More importantly, it now believes that economic activity is growing at a sustained pace, domestic consumption remains solid, and investment remains robust. At the same time, inflation remains high. And Kevin Warsh's remarks confirm this new direction. The Fed's priority is therefore no longer to support an economy threatened by a sharp slowdown. It is now to ensure that rising inflation does not become entrenched over the long term.

"The Fed is now believed that the main risk lies in inflation taking too long to return to 2%"

The U.S. central bank's new projections are particularly revealing: U.S. GDP growth is now expected to reach 2.3% in 2026, the unemployment rate 4.1%, and inflation as measured by the PCE index 3.7%. The median federal funds rate is expected to reach 4.1% by the end of the year. In other words, **the Fed no longer views economic weakness as the main risk. It is now believed that the main risk lies in inflation taking too long to return to 2%**.

This situation is fundamentally changing the way we interpret the markets. Weak economic data no longer necessarily means lower interest rates. Favorable economic data is no longer necessarily good news for risky assets if it further delays monetary easing. It is this asymmetry that we must now consider in our investment decisions.

The same logic applies in Europe. On September 10, the European Central Bank raised its three key interest rates by 25 basis points, bringing its deposit rate to 2.50%. This decision comes as the ECB projects an average inflation rate of 3.0% in 2026, before a gradual slowdown to 2.1% in 2028. But here again, what stands out is the economy's resilience.

The ECB now forecasts growth of 0.9% in 2026 and 1.4% in 2027, forecasts that have been revised upward due to the resilience of the eurozone economy, which has exceeded previous expectations.

We are therefore facing a paradoxical situation: a European economy that is holding up better than expected, but inflation that remains high enough to force the ECB to maintain a restrictive policy.

The return of inflation is shifting the hierarchy of risks. Geopolitical and energy-related tensions could trigger a supply shock that would gradually spread across the economy, weighing on energy and transport costs, goods and services, corporate margins, and household purchasing power. The risk does not necessarily lie in runaway inflation. The real risk is more subtle: **inflation is persistent enough to prevent central banks from cutting rates, even as growth begins to slow.**

"The resurgence of inflation is reshaping the hierarchy of risks."

This is a much more complex environment for the markets, and it is precisely during such periods that broad, overly directional asset allocations reveal their limitations.

Dispersion Becomes a Performance Factor

We are convinced that one of the key investment themes in the coming months will be **divergence**: divergence across economies, sectors, companies, and various segments of the bond markets. While this phenomenon challenges investment approaches based on broad market exposure, it also opens up significant opportunities for active management. When all companies are reporting strong results simultaneously, stock selection adds relatively little value. Conversely, when disparities in growth, profitability, financial structure, and valuation widen, **knowledge and analysis of fundamentals once again become a genuine competitive advantage**.

In the credit market, we prioritize "carry" and selectivity. Rising policy rates prompt us to remain cautious regarding duration. However, we continue to believe that this market offers attractive opportunities.

All-in yields remain attractive in several segments, but we do not wish to expose ourselves to credit risk indiscriminately.

In the European high-yield bond market, we favor companies whose balance sheets can withstand a sustained environment of rising interest rates. European financial subordinated debt also remains a segment we favor, given the improvement in capital ratios and stricter regulatory requirements, which provide significant support. We also identify opportunities in corporate hybrid bonds, favoring issuers with strong balance sheets and a genuine ability to generate cash flow. Finally, emerging-market corporate debt continues to offer attractive carry and solid balance sheets, if we rigorously select issuers and, of course, countries.

Our approach is therefore clear: in a rising-rate environment, we prefer to be compensated for credit risk rather than exposing ourselves to excessive duration.

"Artificial intelligence remains attractive, but simple exposure is no longer sufficient."

In the equity market, the potential remains significant, but selectivity is also becoming essential. The equity market continues to be driven by powerful structural factors: investments in artificial intelligence, digitalization, productivity gains, and certain investments related to the energy transition continue to support the earnings outlook for many sectors. But this trend does not mean that all valuations are justified.

After several years of rising multiples for certain growth stocks, the main question now is whether companies can translate their massive investments into earnings growth and cash flow. A highly selective approach is required. We do not simply want to hold companies that are benefiting from a favorable trend, we want to select those that can capture that value over the long term.

Recent events only reinforce a conviction we have held for a long time: the world of investing is becoming decreasingly linear.

Artificial intelligence is undoubtedly a case in point. No one seriously questions the structural transformation that AI represents. But that does not mean that all players exposed to this technology will follow the same trajectory. Even within the AI ecosystem itself, gaps are widening: between semiconductors and software, between infrastructure providers and users of these technologies, and between companies capable of turning their technology investments into growth and those for whom AI represents, above all, a long-term promise. The theme remains attractive, but simple exposure is no longer sufficient.

In conclusion, central banks are no longer following a predictable path of rate cuts, economies are surprised with their resilience, and inflation could accelerate again due to geopolitical factors. Furthermore, fiscal policies remain expansionary in many regions, and valuation gaps between assets and among companies remain significant.

It is now essential to understand macroeconomic conditions, select the right issuers and companies, actively manage duration, and adjust a portfolio's risk as conditions evolve. Such an environment highlights the limitations of a passive approach and reinforces the value of active management.

Our role is not to accurately predict the next market move or upcoming unforeseeable events. Rather, the aim is to build portfolios that can withstand such events, adapt to changing conditions and, crucially, capture the opportunities they create.

In a world where surprises are becoming more frequent, **conviction, expertise, flexibility, and active management are emerging as essential drivers of value creation.**

Key Takeaways

— **The market regime has changed**: growth remains resilient, while inflation is persistent enough to keep central banks on a restrictive path.

— **Rate cuts are no longer the baseline scenario**: in both the United States and Europe, central banks are now prioritising inflation control over support for economic activity.

— **Markets are facing a new asymmetry**: weak data no longer automatically point to lower rates, while strong data can weigh on risk assets by pushing back the prospect of monetary easing.

— **Dispersion is creating opportunities**: divergences across economies, sectors, companies and fixed-income segments are placing renewed emphasis on fundamental analysis and security selection.

— **Active management is becoming decisive**: selectivity in credit and equities, duration management and dynamic risk allocation are essential to navigating a less linear environment.

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