US Equities
Investment comment

September 30, 2025

Document intended mainly for professional investors

The facts: If many economic indicators published in the first few weeks of September looked somewhat soft, later releases suggested that it might be premature to jump to a conclusion. Political developments, both domestically and internationally, also contributed to keep uncertainty high.

There was no big change in the trends depicted by economic indicators released in September. **Some confidence metrics, like the ISM indices, posted a small improvement from the month before, but others, like the NAHB index and the Conference Board's Consumer Confidence index, were lower**. Actual activity metrics were also generally in line with prior trends. According to the Census Bureau, many housing indicators, such as building permits, remained soft, but durable goods orders (excluding the volatile Transportation component) had kept rising decently (+0.4% month-over-month in August), retail sales had progressed even more (+0.7%) and wholesale inventories remained well controlled. The Federal Reserve's estimates of industrial production and capacity utilization were also consistent with the range of the last few months. All in all, once adjusted for their normal volatility, most of these indicators pointed to a resilient spending despite hesitant confidence. The only significant concern came on the employment front. **The Bureau of Labor Statistics announced that the US economy had created 911 000 fewer jobs than initially estimated between April 2024 and March 2025** (which was a large, although not exceptional revision by historical standards). Despite the departure of its manager, dismissed by Donald Trump, its monthly report about non-farm payrolls in August was also disappointing, with weak net job creations (22 000) and a fourth consecutive month in negative territory for Manufacturing, leading unemployment back to 4.3%.

As regards inflation, the Bureau of Labor Statistics found that production prices had slightly receded in August (after a strong rise in July) but that consumer prices had been reaccelerating throughout summer, with a 0.4% month-on-month rise in August, only falling to 0.3% when food and energy were excluded. This was partly explained by the depreciation of the dollar, which had its early effects on import prices. The first FOMC meeting since July thus took place in a complex environment where unemployment appeared to be on the rise while inflation kept threatening. The outcome was therefore closely watched, especially after the last minute appointment of Donald Trump's nominee Stephen Miran to the committee. **The decision, a widely expected 25 basis points rate cut, suggested that this new member and the President's pressures had not derailed the Federal Reserve's strategy**. Mr. Miran was the only governor pushing for a 50 bps cut, and Jay Powell's comments after the meeting emphasized the desire to keep watching the data before making any clear commitment for the future.

Interestingly, for most of the month, the market did not seem to care about the risk of a government shutdown, which however was due to materialize on September 30 if no agreement was reached. The Democratic Party was trying to leverage the situation to soften a number of budget measures, with a particular focus on healthcare spending cuts. However, **while recognizing that some of the points raised by the minority leaders had merits, the**

Republicans refused to negotiate under pressure. They offered temporary solutions to buy time, but Donald Trump did not seem particularly keen to reach an agreement. He just stressed that his aides were preparing lists of civil servants who could be fired to save money, and probably assumed that the population would blame the opposition. The deadline thus came before any agreement had been reached, but the President had another success to showcase that day. **He unveiled a deal with Pfizer to lower drug prices "but up to 100% and more" (!)**, and let Americans buy their medications directly from a "TrumpRx" government website.

Earnings announcements were in a quiet period, but they were briefly in the spotlights when **the US President talked again about suppressing the obligation to report on a quarterly basis**, to save executives' time and allow them to better run their companies. The SEC said it was "fast-tracking" this project, which had already been reviewed during Mr. Trump's first mandate without being adopted.

On the domestic political side, as could be expected, the "Trump Show" went on as usual. The tribute to Charlie Kirk, a Republican influencer who was shot dead during a speech at a public event, was an opportunity for the US President to galvanize his supporters. The raid on a Hyundai facility's construction site, where hundreds of Korean workers were found to be employed illegally, allowed him to highlight his efforts to control immigration, and his ideas about H1-B visas suggested that this policy might also concern highly-skilled professionals. **He also continued to target a growing number of people whose decisions had upset him in a more or less recent past, sometimes as far back as his first mandate.** This is how a number of journalists were invited to visit the White House's presidential portraits gallery, where Joe Biden's portrait had been replaced by a framed picture of an "Autopen" signing-machine. Many of these attacks however were more serious and, besides the manoeuvers around the Federal Reserve, the most important such event was the indictment of James Comey. This former director of the FBI has been at odds with Donald Trump since 2017, when he was investigating the Trump family's connection with Russia. The charges concerned his 2020 testimony before a Senate commission, which was working on whether Russia had influenced the 2016 election. The indictment came hardly a week after the President obtained the resignation of Erik Siebert, the Acting US Attorney he had appointed to lead investigations into Comey and other unsupportive officials, who had expressed doubts about the strength of the case. The White House kept expanding its list of "corrupt" officials and "dangerous threats to US security" to include several attorneys, a former CIA director and Microsoft's new President of Legal Affairs. Their common fault was a lack of willingness to let the President's agenda prevail over their own sense of ethics or, in some cases, a past position in a Democrat-led administration. Even former President Barack Obama, who publicly voiced his concerns about the evolution of the US democracy under his successor, was promoted to this group with the rank of "traitor". There was no reason to believe that the trend might slow, since the Supreme Court, ruling on Donald Trump's dismissal of a FTC member, appeared to back the removal of any official of any government agency for almost any reason, regardless of the restrictive rules written in the law.

On the international front, the President announced the October 1st introduction of new tariffs on specific goods. **The highest rates were expected to reach 100% on imported APIs and drugs (with exemptions for companies which had started building a production facility in the USA) as well as foreign movies**. Many other products, as diverse as furniture, trucks and related spare parts, were due to incur more moderate levies in a 25-30% range. The White House's frustration with the lack of progress in peace talks between Moscow and Kyiv also led to increased tariff threats against countries, which continue to buy Russian energy. Vladimir Putin did not seem to care, and Ukraine was under heavy drone and missile strikes almost everyday. Meanwhile, **the obvious lack of coordination among Western countries probably encouraged Russia to keep testing their determination with jetfighter and drone flights over their territories**. Donald Trump, who definitely intends to be in the mix for the next Nobel Prize, was

actively involved in peace talks throughout the world. After stressing that he had already ended a war between "Aber-Baijan and Albania" and another one between "Armenia and Cambodia", **he announced that he had a plan for the Middle-East**. This came after a few countries recognized a Palestinian state, at a time when Israel was accelerating its operations in Gaza, occasionally striking South-Lebanon and threatening to annex the West Bank (which the US President immediately said he would oppose).

The effects: Investors in US equities were remarkably careless, and the S&P 500 index posted a 3.61% net return. Once again, though, a wide majority of the benchmark's constituents lagged far behind this performance so that, like most truly active stock-pickers, we struggled to outperform.

After a weak showing in August, Technology was back to the top spot in the performance ranking in September, with a 7.2% rise. Unsurprisingly, it was followed by Communication Services (+5.5%), but the third best performer was a less usual contributor: Utilities (+4%). **These actually were the only three of the market's eleven sectors that outperformed**, and all others lagged behind the broad index. At the lower end of the scope, two groups, Materials (-2.3%) and Consumer Staples (-1.8%), were down significantly.

The above might suggest that September was yet another month when AI exposure made the difference, and boosted at the same time large cloud operators, chip or infrastructure players who benefit when they rush to build additional capacity and power suppliers who will subsequently see demand expand dramatically. This is partly true, and **the industry continued to announce many colossal datacenter projects, with an obvious impact on multiple related businesses**. Storage specialists Western Digital and Seagate were respectively the third and fourth best performers in the S&P 500 index, while the rest of the top 20 also included semiconductor manufacturers (Micron, Intel), their equipment suppliers (Lam Research, Applied Materials, KLA), hardware specialists (Dell and fiber manufacturer Corning) and software developers like Oracle.

Things were actually more complex, and **AI was not the only performance driver, as capital operations (or rumors thereof) contributed meaningfully**. The market's best performer (+68%) was Warner Bros Discovery, which shot up dramatically on reports that rival Paramount Skydance (which also outperformed strongly, with a 29% rally) was considering a bid. Electronic Arts also did very well for Communication Services. The video game publisher announced that it was going to be taken private by a group of investors involving the Saudi sovereign fund, as well as Donald Trump's son-in law Jared Kushner. The amounts involved ($55bn) made the deal the largest such buyout in private equity's history. Intel was strong too (38%). After securing a multi-billion dollar capital investment from the US government in August, the semi-conductor firm said that its sale of Altera, its subsidiary specialized in programmable chips, had been finalized. It then announced an alliance with Nvidia around the development of PC and server processors, and a $5bn stock issuance to the GPU specialist. The stock was later carried by reports of contacts with other potential partners or investors, ranging from Apple to TSMC.

There were very few companies from other sectors among the top performers, but Tesla and Caterpillar were among them. Hopes of seeing more interest rate cuts probably supported these stocks, but the electric car maker also benefited from the announcement of a new version of its Model Y, and approvals granted by several cities to test the robotaxi. **There was a lot more diversity at the bottom of the ranking**, where the five S&P 500 companies which underperformed by more than 20% all belonged to different

businesses: Carmax (used car distribution), Factset Research (financial data systems), Kenvue (health products), Synopsis (software for the semiconductor industry) and Constellation Brands (alcoholic beverages).

All in all, there was no clear style bias in the market, and the two index families managed by S&P gave somewhat conflicting views about which had been the strongest of Growth or Value. **It was clear, though, that size had continued to play a role** since only 146 members of our benchmark outperformed, for 354 that underperformed in September. In addition, as often happened lately, the equal-weighted version of the S&P 500 index was lagging the official, adjusted size-weighted version by more than 260 bps.

This strong imbalance between the number of out- and under-performers, associated with the large cap bias, made the task difficult for active managers, who do not limit themselves to passively buying the largest companies. Once again, in this particularly adverse environment, **our ability to add value through a high-quality stock picking was confirmed, but the market anomaly and the way it skewed our benchmark kept us behind our official reference**. We outperformed the equal-weighted version of the S&P 500 by a comfortable 85bps (gross of fees), but remained 1.72% behind the official version.

This poor result was all the more frustrating as very little happened, that could suggest we had made fundamental analysis mistakes, and everything concrete appeared to be moving in our direction. At this time of the year, there were not many earnings announcements, but a few investor days or broker conferences helped analysts update their views. **If these are any indication, the outlook should be positive since a vast majority of our holdings experienced either positive earnings revisions, target price hikes or recommendation upgrades**… but the market was not really interested in facts for the moment.

The worst contributor to our September return was our stock selection in Consumer Discretionary, where our rather defensive, low price point retail stocks were not the most impacted by the perspective of rate cuts. They also suffered from being (sometimes wrongly) perceived as importers, who may suffer from the weaker dollar or tariffs. Distributors of more discretionary products, like Tapestry or Tesla, did much better but this generally did not come from fundamentals. Communication Services also weighed on our performance, and it is fair to say that **the incident on Iridium Communications (which is explained in details below since it caused us to liquidate the position) accounted for a large part of the effect**. T-Mobile US was slightly weak too, after the announcement of a management transition.

On the positive side, our patience paid off with Intel, which gained about 38% after an already strong month in August. We had kept the stock when most analysts had doubts about the new CEO's ability to deliver a turn-around, and we were happy to see that hope is coming back, despite the long, complex path the company must follow to develop its foundry division into a profitable business. The 20% rise of our second best performer, UIPath, was also a nice reward for our discipline. The stock had been under pressure earlier this year, when AI was seen as a potential competitor for the company's business. On the contrary, we believed that this technology could bring nice enhancements to robotic process automation, as it does to many other software-managed tasks. The company's announcement of multiple partnerships with OpenAI, Nvidia and other big names appeared to confirm that we had been right in this expectation. The AI theme was behind many other strong returns obtained by our holdings involved in datacenter infrastructure (including those classified as industrials). Even solar stock, although volatile, eventually performed well on expectations of high power demand.

Our stock selection also did well in Healthcare. Drug distributor McKesson was our best performer in this group, as its investor day was an opportunity to highlight growth strategies, and raise its long-term guidance. Hospital chain HCA also did well and started its international expansion beyond its modest presence in the UK, with the announcement of a first center in India. Pharmaceuticals

also gave a nice help at the end of the month, as Pfizer's deal with the White House was perceived as a relief, and sent the whole industry up 5-10%. This was not always enough to fully offset the group's earlier softness, as investors had kept favoring more aggressive stocks in trendy themes. Eli Lilly and Jazz Pharmaceuticals were our strongest picks in the category, thanks to positive developments on their upcoming oncology products and, in the case of Lilly, the oral version of their anti-obesity drug.

Our decisions: Portfolio turnover remained low for the same reasons as in the previous months. However, an unexpected deal in the sector appeared to change the competitive landscape for Iridium, and led us to resell that holding. The proceeds funded a weight adjustment on an existing holding.

The sale of frequencies by Echostar, just weeks after the satellite communication operator had reaffirmed its intent to use them in its development, caught us and most investors off-guard. **The most significant game-changer actually was the identity of the buyer, which was no less than Elon Musk's Space X**, the mother company of the Starlink satellite network. The specificities of the frequencies involved suggested that, despite a different focus, Starlink's development might eventually create a much tougher competition for our holding Iridium Communications. As a result of its affiliation, Elon Musk's company is benefiting from almost limitless funding to expand its constellation, including on low polar orbits like those currently used by Iridium to offer its mission-critical IoT coverage of every square-foot on earth. Besides its primary focus on offering broadband in regions that lack a proper terrestrial network, Starlink will have the infrastructure to compete with Iridium at some stage. The risk is not immediate, all the more as the deal will only take effect in 2027. Iridium retains a number of competitive advantages, which include its highly trusted products and services. These are essential for safety- or military-focused utilizations, which may not depend on a company managed by a person as unpredictable as Elon Musk. The company's limited investment needs in the next decade and the synergies resulting from its recent acquisition of Satelles to develop positioning, navigation and timing services should also protect its results in the foreseeable future. Moreover, its valuation is much cheaper than before the announcement, and a vast majority of analysts retained their Buy recommendation, with a target price 80% above current level. However, **we did not want to take an unquantifiable risk and leave money under such a sword of Damocles, and we elected to take our loss on the stock**.

For more details about our recent stock picks, please refer to the fund's detailed report or contact us.

The combination of limited portfolio changes and generally favorable news preserved, and even increased, the attractiveness of our selection when compared to its benchmark. Our holdings offer a comfortably higher projected median growth on both 2025 and 2026, they also grow faster over the long-term, and their earnings forecasts are being revised more favorably, whichever metrics are used for this calculation. Moreover, with their much cheaper valuation, they will hopefully be more resilient when investors start considering the possibility of an economic slowdown.

The outlook: The US economy is robust but the accumulation of excesses around it should be a strong incentive to remain disciplined and objective. It is incredibly frustrating to underperform because the market ignores everything outside a handful of fashionable stocks, but anomalies never last forever.

In our opinion, the key questions that will determine whether investors are right or wrong in the next few months are the pace of the economy and the momentum of the AI story.

As regards economic growth, we note the resilience of the US activity, but **we believe that several factors will weigh on it in the coming months**. Although the magnitude of "pulled-forward" orders is difficult to quantify, they probably contributed to boost a number of indicators since "liberation day" and until recently, but the effect should now be fading. The shutdown will also take a toll, whose impact will essentially be temporary, with possibly some lasting impacts if the administration uses the opportunity to lay-off more of its employees. Inflation will also probably remain a headwind. When companies were struggling to retain or hire the employees they needed in the post-Covid period, many of them granted huge wage hikes, which were due to apply gradually over a few years. We are right in the middle of that implementation period, which also comes with the slightly lagging impacts of tariffs and the weaker dollar on input costs. Unless savings can be found elsewhere (most probably through job cuts), all this should keep inflation higher than the Fed's target levels in the foreseeable future. This is why **we try to keep a reasonably balanced exposure to the various parts of the economy, including those where growth is less dependent on discretionary spending**.

As regards AI, which has been the single most powerful market driver in recent quarters, we believe some sort of expectation adjustment is overdue. We remain very confident in the technology's potential, and believe that only a small part of how it will impact everyday life has been figured out so far. However, History is full of game-changing technologies whose success did not come in a linear manner, or benefited mainly to players whose potential had initially been underestimated. In our opinion, **some of the companies which are the most commonly associated with AI are in a more fragile position than their recent performance may suggest**: they will obviously continue to enjoy a strong sales growth, but the market's expectations, and subsequent valuations, are so high that it may not take much for a disappointment to trigger a sell-off. However, there is not enough visibility to guarantee that this will happen soon, and this is why we also build our exposure to AI through less obvious, more diversified or more indirect beneficiaries of this or other themes.

These uncertainties are not abnormal, but the US President's rough, unpredictable methods keep adding a layer of complexity. Investors' reaction to the White House's deal with Pfizer illustrates this problem. In the long-term, the agreement is going to weigh on pharmaceuticals' margins in their most profitable market. Nevertheless, it sent the whole sector up just because it restored visibility!

In this tough environment, **we continue to trust that facts and fundamentals will prevail anyway, and that it is essential to keep analyzing them with the same discipline to avoid letting emotional reactions add mistakes to mistakes**. It is extremely frustrating to see that the strong, proven fundamental developments on most of our holdings are completely ignored by investors, who only focus on a few popular names and don't seem to dig much further. These developments however are making such holdings even more attractive, and our only concern is when, and not whether, the gap will become so obvious that the market will correct it.

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