Bonne Année
Happy New Year
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2026

The facts: There were still delays in the release of indicators in December but, despite the lack of details, the general sentiment was that economic activity remained resilient. Geopolitics also contributed to uncertainty, as peace talks in Ukraine did not seem to progress much, and tensions grew between China and Taiwan.

Although the government shutdown officially ended in the first half of November, its lagging effects were still disturbing the flow of economic indicators in December. Some series compiled by the Census Bureau about housing and construction appeared to be particularly late, with the most recent data about building permits, housing starts and construction spending dating back to August. Personal income and spending figures, which are usually published by the Bureau of Economic Analysis within a month, were not yet available beyond the September reading.

A few elements remained available to help investors guess how the US economy was faring, and they generally sent a mixed, somewhat conflicting message. Some suggested that business was reasonably resilient. The first estimate of the country's GDP in the September quarter was finally released, and its 4.3% annualized growth rate was well ahead of expectations. The NAHB index, which was up for the third consecutive month in December, pointed to a slightly more optimistic mood among homebuilders. The ISM indices and the Federal Reserve's monitoring of industrial production and capacity utilization also indicated a roughly stable situation in October and November. Some other indicators however were more sluggish. The Census Bureau published durable goods orders for October, and

they were down 2.2% on a weak transportation component. Despite a positive revision of the November reading, **the Conference Board's Consumer Confidence index continued its uninterrupted string of monthly declines since the July peak**. Several metrics also showed that vehicle sales had been soft since the end of summer and had weighed on retail sales (which otherwise were resilient). Finally, the Bureau of Labor Statistics simultaneously cut its initial estimate of non-farm payrolls added in September, and released employment data for the following two months. Despite an improvement in the latest period, they were rather soft and the US jobless rate rose back to 4.6%, its highest level since the Covid times in 2021.

Investors however did not react much to these numbers, as **they had various reasons to believe that they could have been skewed by exogenous factors**. Everyone was expecting spending to have been boosted by fears of higher prices ahead of tariffs implementation, and be more subdued in the aftermath. The soft patch on vehicle sales could also be linked to chip supply disruptions caused by Nexperia, and that on job creations to the effects of the shutdown on government jobs (all the more as weekly jobless claims did not seem to have risen so far). In addition, various sources, which try to assess holiday spending based

on online marketing or credit card data were rather optimistic, and suggested that Black Friday and Cyber Monday sales could have been up by as much as 5-7% against the same period last year.

The Bureau of Labor Statistics also published the Consumer Price index for November. The October figure was skipped, but the variation over two months suggested that inflation had remained subdued over the period, both overall and excluding food and energy. The PPI, which tends to reflect emerging trends earlier, was not available yet for the same period. The Federal Reserve held its last meeting of the year, and cut its target rate by another 25bps. However, **post-FOMC comments suggested that, at this stage, the central bank was not expecting to adopt a much more accommodative stance in 2026**.

There were few quarterly earnings left to report in December, but most of these announcements were better than expected, as Broadcom and Salesforce illustrated. As regards the future, most companies which reported or took the opportunity of an investor meeting to update their views, raised or at least reaffirmed their guidance, but this did not always meet expectations. Home improvement retailer Home Depot was in that case.

Many things were moving on the international front but none of these developments was seen significant enough to disturb investors during the holidays. Peace talks were continuing about Ukraine, and multiple comments from political leaders (particularly Donald Trump and his aides, but also, to some extent, Volodymyr Zelenskyy and Vladimir Putin) suggested that progress had been made towards a ceasefire. It was difficult to believe that an agreement could be reached soon, though, because both Moscow and Kyiv had key demands that looked unlikely to be accepted by the other party. In addition, towards the end of the month, Russia accused Ukraine of having tried to attack one of Mr. Putin's residences. **The general sentiment was that the news had little credibility, and was probably set-up by Russia to kill the peace talks**. Meanwhile, China continued to increase pressure on Taiwan, prompting the USA to validate an $11bn weapon sale to Taipei, their largest such deal in almost 25 years. In response, Beijing announced new military drills around the island, which was seen as an escalation as it involved even more ships and planes than before, and used live-fire ammunition for the first time. Several more recent tensions also appeared to be developing. Washington continued to accuse Venezuela of facilitating drugs trafficking, and the US Navy opened fire on several boats which were allegedly used for that purpose. As of the end of December, there was no clear evidence that this might lead to more drastic measures. Although less visible in the media, the dispute between Thailand and Cambodia (which Donald Trump had presented as "resolved" following his last trip to Asia) continued to develop, with the Thai army now striking touristic areas close to Siem Reap and the Angkor temples.

The effects: The weakness of fundamental support did not prevent the S&P 500 index from posting a marginal gain to finish the year up 17.43%. Our strategy ended December slightly behind its benchmark, and the same applies over the whole 2025, where the Mag7 bias remained a headwind for active managers.

There was a year-end rally for US equities in 2025, but it did not last until December. **The month was quiet for lack of significant financial news, and all sectors except Utilities (-5.3%) moved less than 3% either way**. Overall, the S&P 500 index was down 0.1% on a price-only basis, but the effect of dividends reinvestment allowed it to post its eighth consecutive monthly return in positive territory with a net return calculation.

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It was difficult to find a common cause for market movements as, for example, there were rate-sensitive groups both among the best and the worst performers: Materials were up 2% and Real Estate down 2.75%. Style did not seem to have much impact either. In both S&P's standard and "pure" families of indices, the Growth and Value benchmarks had similar returns despite the weaker performance of the innovation-oriented Nasdaq Composite index, which ended the month 40 basis points behind the S&P 500 index. Size did not matter much either. **Only two of the Mag7s outperformed in December: investors were tempted to take profits on AI-related stocks**. Only Nvidia (which was boosted by the White House's decision to soften its ban on exports of H200 chips to China) and Meta Platforms (which was said to be mulling a significant budget cut for its costly metaverse development division) were up over the month. The other five were down moderately, though, with the exception of Broadcom, which lost 14% after reporting its quarterly results. These were strong, the company made upbeat comments about demand for AI and issued a revenue guidance above consensus, while also raising its quarterly dividend by 10%. However, investors did not like the management's note signaling that AI would have a negative impact on margins in the foreseeable future.

As a matter of fact, **results or announcements made as part of investment conferences played a meaningful role in returns, and several of the top performers in the S&P 500 index in December were stocks reacting to a recent comment on results**. This was the case for retailer Dollar General, whose turnaround strategy is bearing fruits, as well as memory chip manufacturer Micron Technologies, which, like its peers, is benefitting from a constrained supply in its specialty. These two securities each gained more than 20% and micro-controllers specialist Microchip, which also raised its guidance, was not far behind. The combined effects of technological trends and international tensions also benefited stocks like copper miner Freeport McMoran.

However, **other performance drivers were also at play, and contributed to make the top performers' list very diversified from a sectoral standpoint**. Warner Bros Discovery had one of the top four returns among index constituents as both Netflix and Paramount Skydance competed to acquire the media company (and thus underperformed strongly). Reports that activist investor Elliott Management had bought a stake in Lululemon Athletica sent the stock up, while another sports apparel and footwear specialist, Deckers Outdoor, probably benefited from looking relatively cheap after having performed poorly in 2025. Meanwhile, Tapestry (which manages the Coach and Kate Spade brands) did well after detailing topics such as its strategy to tap the benefits of AI and its potential in China. There was also a strong representation of tourism-related companies among top performers. Norwegian Cruise Lines and its peer Carnival, Southwest Airlines and AirBnB all gained more than 16%, after some of the sector's members made encouraging comments about the level of bookings. However, not all consumer-related businesses were strong and, for example, both auto parts distributors Autozone and O'Reilly dropped more than 10% after the former fell slightly short of profit expectations. Despite the improving mood in homebuilding, Lennar lost more than 21% and weighed on the whole industry after also missing forecasts. The bottom performers in the index however were less economically-sensitive stocks, such as frozen potato producer Lamb Weston (which lost 29% after only reaffirming its guidance) followed by Coinbase Global (which has been suffering since October in connection with the decline of the Bitcoin).

This ended a year during which US equities, as represented by the S&P 500 index, officially gained 17.43% with net dividends reinvested. Their average, non-weighted return was, once again, far behind that, at only 10.8%.

Our strategy underperformed slightly in December, with a gross return 55bps behind that of its benchmark. **The main cause of this result was the weakness of our security selection in Technology, where we lost more than 70 bps**, while the aggregate impact of stock picking (directly or through its induced implication on sector exposures) was slightly positive in other sectors.

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With its 14% fall and a portfolio weight close to 4%, Broadcom alone explained a good portion of our underperformance. As mentioned above, the company's results and its guidance were strong, but the market focused on margins, which logically decline as the share of AI chips increases in the revenue mix. **We do not think this should have been a surprise**, and we are convinced that Broadcom (which significantly outperformed Nvidia in 2025) remains an attractive way to play the AI opportunity. The company covers many different components of the datacenter infrastructure, and its application-specific processors are a competitive alternative to more powerful, more expensive GPUs. Pure Storage, whose return was even weaker (-24%) but with a much smaller exposure, also weighed on our performance. The reason was somewhat similar to the previous case, in that investors focused on a specific detail while most of the announcements were positive. The company reported a strong growth, with solid client wins, and raised its full-year revenue guidance above both consensus and the high-end of its prior forecast. In addition, the management said that memory prices, which are sharply up at the moment, should be relatively easily passed through to customers, which should have lifted one of the market's main concerns. However, they also warned that R&D costs would weigh on margins. We considered the stock's reaction as a reinforcement opportunity. Several other technology holdings related to AI harmed our excess return too, although to a much lesser extent, but we also benefited from a strong contribution from a number of other positions. UIPath, which specializes in agents that help robotize users' tasks, was our best performer at +18%. Its results and guidance exceeded expectations, and reassured the market about the company's ability to use AI to further enhance its products instead of suffering from its competition. Salesforce, whose recent AI-powered product AgentForce also proved to be a solid growth driver, was not far behind despite mixed financial results. Investors viewed the favorable momentum in deals, illustrated by recent contracts with customers such as the US Department of Transportation and drug maker Novartis.

In other sectors, we lost a few basis points in Energy and Healthcare. In the former category, refiners resisted better than our production-dependent stocks when oil prices contracted. In the latter, the Democratic Party failed to impose the renewal of subsidies to Obamacare marketplaces, which weighed on certain services stocks such as our hospital management holding. These detrimental factors however were more than offset by a solid stock picking in Consumer Discretionary and Finance. Our off-price retailer Burlington Stores did very well on hopes of a steady consumption in the holiday season. As for the second sector, its performance was a result of our holdings' homogeneity, with a moderate excess return throughout our selection. Most of our Industrials also did well. Specialty steelmaker ATI, in particular, was supported by the strong demand from the aerospace and defense industries, and our latest purchase Huntington Ingalls reacted to Washington's announcement of several new military ship programs. However, the sector only contributed a few basis points, as these benefits were partly offset by the weak showing of Vertiv Holdings which, like most other AI-related stocks, went through a soft patch. Finally, we gained a few basis points from being completely out of Utilities and Real Estate, which underperformed.

As regards the whole year, our overall achievement in 2025 was mixed. On the one hand, we failed to outperform our net return benchmark, and ended the period 189 bps behind our reference (gross of fees). On the other hand, we paradoxically feel rather proud of this result because, once again and for the third consecutive year, **truly active managers were facing a strong headwind, and it was almost impossible to outperform without accepting a crazy risk**. The market's return was distorted by a handful of heavy weights, many of which were boosted by a sort of hype, which fundamentals did not fully back in our opinion. With the official benchmark returning almost 700 bps more than the average performance of its components, this headwind was very difficult to offset. Even though we strongly outperformed the equal-weighted version of the S&P 500 index, we did not fully manage to match its size-weighted version.

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Our decisions: We made a single change to our portfolio in December, with the replacement of Bath & Body Works by another retailer, which should offer more visibility. Despite this last trade, 2025 will have seen a particularly low turnover, since strategic shifts only impacted about 20% of assets.

Our decision to sell the retailer of cosmetics and house-related products was caused by its earnings miss and its disappointing guidance, issued in late November. As explained in our investment comments last month, the management blamed inflationary pressures on consumers, and announced a series of strategic initiatives to save costs and restore growth. Given that the stock's sharp fall pointed to an overreaction, we initially reinforced our position to bring the holding back to its initial target weight, and benefited from its solid rebound in the following few weeks. However, our sentiment was that the turnaround plan, while attractive and ambitious, lacked concrete implementation details. This made it heavily reliant on management execution, which was difficult to judge given the short tenure of the new CEO (who joined from a less exposed position at Nike a few months ago) and several other key executives. **We thus decided to move out, as we did not have enough visibility** and did not want to take the risk of further disappointments in 2026.

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

Although we replaced a Consumer Discretionary stock by one officially classified a Consumer Staples, our portfolio's actual exposure was moderately impacted because the new holding is probably not much less economically sensitive than the previous one. Based on the strategy's sector exposures (which, as a reminder, are a by-product of stock picking rather than a deliberate top-down choice), **we end the year with relatively limited bets compared to our historical standards**. Healthcare remains our most overweight industry, followed by Technology, but in these two categories, the excess weight vs the index is less than five percentage points, and the nature of our holdings additionally contributes to mitigate the risk. Similarly, the gap is small in most sectors where we are underweight. We hope to be able to come back to more normal risk-taking, as our strategy has always been a truly active one, but this requires a better visibility than we think we have at the moment.

As for the portfolio's other characteristics, they remain consistent with our strategy's normal stance. Based on current forecasts compiled by LSEG/IBES, our holdings will end 2025 with a median EPS growth almost ten percentage points above that of the index (18.05% vs 8.50%) and they also offer a significant growth advantage over the new year and for the long-term. Moreover, **the revisions of 2026 forecasts are already in our favor, and we expect this to increase the gap over time as generally happens almost every year**. Nevertheless, our portfolio's price multiple based on forward earnings is significantly below market average, which is a way of addressing our concern about the excessive valuations reached by several segments of the market. Our underexposure to most Mag7s accounts for almost half of that valuation gap.

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The outlook: The latest developments, including the Federal Reserve's statement, have further reinforced our confidence in our scenario and our stock selection. Our strategy should pay off … as soon as a more realistic view about AI will let actual fundamentals drive returns within our benchmark.

We are entering 2026 with a continuing lack of visibility. The global economy is reaching a point in its cycle, where it is always difficult to determine where things are going, i.e. whether the monetary policy, whose effects always appear with a several-quarter delay, has been dosed suitably to derail the slowdown without causing an excess in the opposite direction. The slow flow of economic indicators at the moment makes it even more difficult to assess business trends in a timely manner, and companies are not helping much with their diverging views of the outlook. Moreover, the US President continues to make unpredictable, fast-changing decisions about economic and international topics and the level of geopolitical tensions increases the risk that any minor event might spark an incident and spiral into something more serious. **The top two economies in the world and the top three military powers are now ruled by leaders who do not bother applying the principles of conduct which have prevailed since WWII**. Their choices are guided by pragmatic views of their country's (or their own) immediate financial or political interest with little consideration of side-effects and long-term impacts on international balances and diplomatic ties inherited from History. While we don't necessarily disagree with the stated objectives, we can't be comfortable with the method, as lost trust inevitably leads to turmoil at some stage with, at best, an impact on confidence and spending.

All this leads us to avoid clear-cut investment stances for the moment, to favor moderate biases when we feel we have enough visibility or when we identify specific opportunities. Diversification also remains an essential objective in this backdrop. Meanwhile, for the moment, the few elements we have about the US economy suggest that it is resisting reasonably well, but **we probably differ from the majority by our more selective bets on AI and consumer stocks**. We already said on numerous occasions in the past that, while

AI has a great potential, we believe that few of those who are currently investing in it will be rewarded by benefits consistent with their expectations. The "garbage in, garbage out" saying is more suited than ever, and **more and more studies are highlighting that AI can't be entrusted with vital processes unless it has been trained on well-identified, perfectly accurate data… which very few players have**. Some kind of disappointment (or come-back to earth) is therefore likely at some stage. Given the stretched financial situation of many companies behind the massive investments that currently drive demand, and our belief that much stricter regulations will be needed sooner or later to avoid disasters, we are not inclined to assume that this tree will rise to the sky. We therefore prefer to play the theme through infrastructure suppliers who, like shovel manufacturers during the Gold Rush, are more likely to deliver than early adopters. As for consumers, it is quite clear that they are not all optimistic. A portion of the population is going to keep spending, because it is not constrained and may even benefit from tax breaks or other measures, but another part is suffering from inflation, job losses or cuts in federal spending on social measures like the Affordable Care Act. This leads us to seek products or services whose resilience is backed by a moderately discretionary profile, a low price point or an exposure to "trade down" by consumers seeking to save money. As regards other topics, we should continue to favor companies driven by innovation (often found in Technology, Healthcare or occasionally Industrials), but M&A also looks poised to have a good year in 2026.

All in all, we don't intend to change much in our approach for the moment, and our next few movements will most likely be portfolio adjustments driven by stock picking, rather than major reorientations. We also hope to see the market revert to a more normal performance, where the

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broad-based index fairly reflects the return of a typical stock (as its equal-weighted version still does), instead of being distorted by a handful of giants behind which many other attractive stories become completely invisible. This anomaly has been lasting for a long time, and it was particularly strong in the last three years, which only makes a reversal even more likely. Over time, **the best performers in the US market are not the "blue chip" giants, whose size is an impediment when it comes to growing and adapting, but their slightly less obvious, more agile rivals**. As a result, our main objective for 2026 will be to continue to deliver a strong, consistent outperformance of the equal-weighted version of the S&P 500 index, which statistically represents the return of a fully randomized stock-picking and, as such, the "level zero" of value added. If we achieve this objective, as we comfortably did almost every year since we launched the strategy in mid-2017, we know that, sooner or later, we will also be back ahead of our official benchmark.

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