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The facts: A dual-speed economy continued to prevail in the USA in September, as AI-driven growth helped mitigate the effects of political developments on inflation and sentiment. Both domestically and internationally, Donald Trump experienced blows which announce challenging mid-term elections.

Economic indicators published in September continued to reflect the contrasted situation, which has been prevailing for some time now. As regards sentiment, the ISM indices were strong (54.6 and 55.4 respectively in Manufacturing and Services) but the NAHB index was back to its lows of autumn 2025, and the Conference Board's consumer confidence index was down for the fourth consecutive month, to 81.9. This was not only well below expectations, but also a level not seen for more than twelve years, even during the Covid crisis. **Similarly, business metrics were difficult to reconcile.** Capacity utilization (76.3% according to the Federal Reserve) was rather high and stable, while unemployment (measured at 4.1% by the Bureau of Labor Statistics in August) also remained unchanged at its lowest level in more than two years. This was supported by a clear recovery in non-farm payrolls and, to a lesser extent, retail sales, after a series of sluggish readings in the last 2-3 months. However, the Census Bureau found that durable goods orders had remained unchanged sequentially in August, as transportation equipment weighed to offset a modest 0.3% rise on other goods.

Inflation also continued to complicate the interpretation of economic data, as energy prices and exchange rates, which have been volatile in the last few months, are having a delayed effect on businesses and households. **Like the ECB and the Bank of Japan, the Federal Reserve decided to raise its reference rate by 25 basis points**, to 3.75-4.00%, and suggested that more was coming. Investors anyway

were expecting this, and the month ended with all US government bond yields above 5% for maturities three years and beyond.

With most quarterly earnings announcements already done earlier in summer, the market did not receive much information from companies, that could help refine the assessment of economic conditions or other relevant trends. A few conferences organized by brokerage firms or medical societies however created occasions for executives to provide updates about their latest developments or their perception of the outlook. **The message was reasonably confident, but appeared to confirm the dual speed of the economy.** In the AI sector (which Donald Trump decided to rename "superintelligence"), the tone remained upbeat despite a growing number of incidents caused by models going rogue. These did not prevent Meta Platforms from launching its new Muse service, whose AI is designed to help users automate their everyday tasks, including shopping, bill payments etc. A meeting was held at the White House on Sept. 29, during which the main players were supposed to agree on a self-imposed safety charter. However, **judging from the participants' comments to the press after their discussions, it was difficult to believe that they had all attended the same meeting.** Trends looked more subdued in other areas of the economy, but there were puzzling bright points, like the strong results and positive guidance issued by Carnival Cruise Line despite headwinds from oil prices and geopolitical tensions.



The above factors naturally influenced investors, but they left plenty of room for political developments to play an important role. The domestic side remained confused, with various signs that Donald Trump's behavior was starting to backfire. The US President suddenly decided to ban three news outlets, including CNN and Politico, from the White House for allegedly spreading "fake news". It only took a week for a court to rule that this measure was unconstitutional and force the administration to restore their access, but the most striking reaction was that of other media involved in the presidency's pool coverage. Even Fox News, which is often considered as the most Republican-leaning TV channel, announced that they would stop filming Mr. Trump's press conferences and other events until their colleagues' passes were reinstated. Other signs kept coming from the GOP ranks that the president might have reached the limits of his "going too far without any consequences". **A growing, although still small number of congress members appeared to be taking their distance with the White House ahead of the mid-term elections.** As a matter of fact, the synthesis of opinion polls compiled by Real Clear Politics showed that Donald Trump's popularity was at his two mandates' low and that, while a win of the House had already been looking unlikely for a while, the battle for Senate was becoming tighter, with a slight advantage for the Democrats.

On the international side, the focus remained on the Middle-East. The first few weeks of the month saw concerns grow of a further escalation. Iran managed to strike several ships while they were trying to sail through the Strait of Hormuz, and also damaged the East-West pipeline used by Saudi Arabia to export some of its oil through the Yanbu

terminal on the Red Sea. To make things worse, the Houthi rebels in Yemen took control of several islands off Djibouti, in the Bab-el-Mandeb Strait, thus increasing their ability to block traffic through the Red Sea and the Suez Canal. However, Iran and its allies did not seem to capitalize on these achievements, as the US blockade of its harbors looked very effective. **Reports published at the end of the month even pointed to a strong improvement in oil flows through Hormuz, which were said to be back to almost 80% of pre-war levels.** It was not clear, though, whether this was sustainable: some analysts said that the US Navy had simply improved its organization to escort tankers through the dangerous waters, while others suggested that Tehran had intentionally alleviated its pressure to give a chance to a new peace plan... which the White House immediately rejected. Another escalation was at work around Ukraine. Vladimir Putin's party comfortably won the Russian elections, but this did not hide the country's difficulties in front of Kyiv's ingenious strategies. As a result, **Moscow's strikes went one step further, with direct attacks on civilian populations and a growing number of provocations against NATO countries** and others that provide help to Volodymyr Zelenskyy. Finally, Donald Trump also faced difficulties in his attempt to impose new tariffs on Canada, but these were temporarily eclipsed by Xi Jinping's high-profile visit to Washington. **The White House made a lot of efforts but the talks' official results only involved a mere two-month extension of the tariff truce signed a year ago,** and a series of trade agreements on a weird list of items. It was not clear whether these talks had also led to unofficial results, which could explain, for example, the sudden improvement in Hormuz.



The effects: US equities held up better than could have been expected given the accumulation of issues. The S&P 500 index posted a -0.38% net return, but our strategy was weaker. Following a very strong period, we were hit by profit-taking, which our stock-picking could not offset for lack of significant news.

The two GICS sectors that immediately come to mind as offering a heavy exposure to the success of AI are Information Technology and Communication Services, and **they were the only two that ended September with a positive return**. They together represent approximately 50% of the S&P 500 index, and they both gained almost 4.5%. In the remaining half of the market, the next category in the performance ranking, Healthcare, was down 1%, and most other groups lost 3 to 7%. As explained above, there was little corporate communication towards investors aside from rare results announcements and a few conferences, and these movements were driven primarily by top-down views or general reactions to a few events.

As regards AI, despite the accumulation of reports signaling that rogue agents had trespassed their assigned limits, investors assumed that regulation would not curb demand for computing power and shifted back to optimism about the sector. The momentum was fueled by Nvidia's CEO and his peers, who kept spreading upbeat comments about the strength of demand and the high visibility well beyond 2027. **This supported chip, storage, hardware and connectivity manufacturers, who all stand to benefit from the expected robustness of investments**. However, many software companies also did well this time, as disruption fears are more focused and investors are better aware of how new technologies can help enhance applications or infrastructure security. In the end, technology stocks represented 18 of the S&P 500's top 25 performers in September. As for Communication Services, the situation was more contrasted. **The main contributor to its overall return was Meta Platforms, whose 26.7% gain, combined with its significant weight in the sector, had a large impact**. Its rally was mainly caused by the high expectations around Muse. Alphabet outperformed modestly, and most other specialties within that very diverse sector, which ranges

from social networks to TV channels to telecom companies were softer.

The second most-represented category at the top of the performance ranking was Healthcare. Moderna continued to do very well (+37%) and topped the return table after its August announcement regarding progress in the development of a cancer vaccine. Many providers of equipment and services for the life sciences industry also outperformed strongly. Here again, there was some kind of link with AI **as models had widely been expected to disrupt the traditional research ecosystem, and it now appears that they are more likely to accelerate it**. The sector as a whole however underperformed slightly because most drugmakers, which represent most of the largest weights in the category, were globally in line or slightly behind the index. The market focused on a narrow theme, and even laboratories reporting encouraging news in their R&D or drug approval processes went relatively unnoticed.

At the low end of the scope, rate-sensitive groups like Utilities (which also face rising input costs and major investment challenges to supply enough power to datacenters), Real Estate, Materials and to a lesser extent, Industrials were logically under pressure. Interestingly, they were joined by Financials, whose 7.2% decline was the market's worst sector return for the month. It appears that banks, which normally benefit from a steepening yield curve as long as it is not excessive, were impacted by the growing risk of an economic slowdown, and the potential impact of higher rates on M&A deals and upcoming IPOs. However, **the weakness of the sector was also due to the disruptive potential of Meta's Muse**. The platform aims to free its users from mundane, time-consuming tasks, ... such as investing the excess cash held in their financial accounts. This announcement weighed on Schwab and its likes, for



which this cash is currently a valuable source of income. Muse, which can also optimize shopping, bill settlement and many other tasks on behalf of its users, also weighed on Consumer Discretionary. It will likely exacerbate price competition, which will add-up to existing headwinds from declining consumer confidence and rising rates.

These polarized market returns once again led to a distorted index return and a very adverse investment environment for active managers. **Only 117 of our benchmark's 500 stocks outperformed, and there was a 450 basis points return gap between the official, size-weighted index (-0.38%) and its much weaker equal-weighted version (-4.86%).** Our stock-picking was successful, since the strategy did 167bps better than a randomized selection (which would statistically produce the performance of the equal-weighted index) but this was not enough to beat our official benchmark.

Logically, given the gap between AI-related stocks and everything else, most of our underperformance came from IT and Communication Services. **Our exposure to the former is more balanced than in the index**, as we are underweight on chip manufacturers and completely out of their equipment suppliers, which we consider overly expensive despite their strong, sustainable growth. Most of our chip-related holdings did well, led by Intel, which was the market's second strongest stock with a 34.3% rise, on signs of progress towards the spin-off of Altera and rumors suggesting that its foundry business might work with SK Hynix. However, our underweight on Nvidia harmed again, and Broadcom was one of our few semiconductor plays that underperformed... because it was one of the few that reported results in September. Like most of its peers at their time, it displayed a very strong growth and raised its AI revenue guidance, but its discussion of capex plans

displeased investors, who would like the same growth without the investment spending. In another illustration of the need to focus on long-term view, UiPath was our weakest performer in September, after being our strongest in August. Here again, **the specialist of agentic robots announced results good enough for most analysts to raise their target price, but the stock went down sharply.** Moreover, the stocks we hold in other sub-industries of IT, ranging from technology distributors to smart meters for utilities, did not all perform well due to their less aggressive profiles mixing a resilient growth and a reasonable valuation. Our underweights on Apple and Microsoft, which respectively gained 5.1% (on the presentation of the long-awaited foldable iPhone "Duo") and 1.1% (on a dividend hike and analyst upgrades), also caused a modest headwind. As regards Communication Services, **we mainly suffered from not having any exposure to Meta Platforms' 27% gain, but we continue to exclude this company because of the extra-financial layer in our company analysis.**

On the positive side, we were helped by our absence from Utilities, Real Estate and Consumer Staples, and we had modestly positive contributions from Finance and Consumer Discretionary. The latter, in particular, placed our three retailers among our selection's top ten performers.

All in all, given the lack of significant news from companies, top-down and general sector considerations had a bigger influence than usual. This did not play in our favor, since our investment process is designed around bottom-up analysis. It also looks likely that profit-taking harmed our holdings more than average, since they had strongly outperformed over the last few months. **Our strategy remains well ahead of its benchmark since the beginning of the year, and is even farther above the equal-weighted index**, which confirms the quality of our stock-picking.



Our decisions: After a slightly higher turnover during summer, when company-specific reasons triggered three replacements in our portfolio, September was quieter and we did not make any change to our selection. This was consistent with the relative stability of our scenario.

The first two months of each calendar quarter typically bring a dense flow of results announcements and guidance updates, which in turn may trigger evolutions in our perception of certain holdings' perspectives. **On the contrary, things are usually less busy towards the end of the period** and September is no exception. The number of "analyst days" and investment conferences held in that space is higher than normal, but executive teams, who often revised their outlook as recently as the announcement of their second-quarter results, usually have little new information to unveil. Our selection remained unchanged in

September, thus reflecting our confidence that the core scenario had remained consistent with our previous expectations.

Our portfolio's characteristics remain consistent with the structural profile of our strategy, with a growth bias approximately in the middle of the normal range. **Its valuation however remains more attractive than usual compared to the market's level, as we continue to believe that a number of themes are too overheated and risky.**

The outlook: We remain convinced that the US economy is not as strong as suggested by indicators, which are skewed by demographics and AI investments hiding various headwinds. Our slightly defensive portfolio should thus do well in the more factual backdrop of the upcoming earnings season.

Admittedly, the recent inconsistencies among economic indicators support almost any interpretation, and investors continue to focus on the rosy part of the picture. Official growth figures are resilient, executives are optimistic, and unemployment remains low. On several occasions in recent weeks, new jobless claims were below 200 000, which bodes well for consumer spending, ahead of the holiday season.

However, we believe that this interpretation is overly optimistic. AI is generating strong investments, which represent a significant part of GDP growth. In addition, as the wave of baby-boomer retirements is accelerating, **the US economy doesn't need any net job creations to keep unemployment at its current low level.** These two factors alone would probably be enough to keep indicators in a favorable zone, and help bulls justify their stance. We are

afraid, though, that these factors will not be as favorable as they look. Of course, AI is going to generate capex as well as productivity gains, and we fully agree with that. However, we think that real demand will grow more slowly than in the current scenario. The first reason is that **the strong revenue trends announced by the industry are out of proportion with the pace of their customers' planned spending.** Hyperscalers are investing to meet the expected demand from AI labs, which themselves are racing to develop always more powerful models, but continue to struggle to monetize them. That whole growth chain is based on pure speculation about future demand, and funded by debt and capital raising, as labs' losses appear to far exceed their revenue. In addition, however reassuring the sector's tycoons may look in their comments, AI involves risks that are of the same magnitude as those of nuclear technologies, if not even larger. Even if we believed that incidents only



happened in testing environments so far, as labs are saying, it would just be a question of time for the same to happen in real life. **We thus believe that the technology's development and use cases will have to be strictly regulated**, rather sooner than later, to limit that risk. As for employment, demographics are actually keeping the US jobless rate low, but the effects on GDP and company earnings will by no means be similar to those produced by full employment in a dynamic economy. Finally, we suspect that one-off factors might have skewed certain indicators, to make them look stronger than their sustainable pace. In particular, **the current tensions in the job market and in marine transportation** (whose flows are disturbed by geopolitical factors and draught-related capacity issue in the Panama canal) **might have led companies to start preparing for the holiday season earlier than usual to avoid last minute problems with staffing or supply.**

This is why, while acknowledging the strength of AI development and the resilience of US growth, we do not think it would be wise to reinforce our exposure to these

themes, as a way of reducing the likelihood of underperformance periods like we had in September. We trust that our portfolio has the right profile to benefit from these drivers, without incurring an excessive risk in the inevitable periods when investors will have doubts, or realize that a large part is already discounted. We are confident that the new earnings season, which will start in a few days, will contribute to give more granularity, which is structurally missing when only macroeconomic figures are available. Our strategy prioritizes bottom-up analysis. In periods when there is little information available from companies, it may logically suffer from not being fully aligned to investors' general scenario but, if our research was right, the catch-up takes place when communication resumes. We note that, **even during the last few weeks, analysts continued to raise their earnings estimates and target prices on most of our holdings, which currently have an average upside of 24%** according to LSEG/IBES data. Time will tell if they are right but, in our experience, their views are usually closer to the truth than those built upon general considerations only.

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