

US Equities
Investment comment

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Document intended mainly for professional investors

The facts: Puzzling economic indicators and the first earnings announcements kept uncertainty high in October, but geopolitics brought even more surprises. Donald Trump suddenly appeared to have cut its support to Ukraine, and tight elections in Israel opened new questions about the Middle East.

Economic indicators remained difficult to interpret, not only because they sometimes seemed to contradict each other as we had noted in previous comments, but also because several of them reversed prior variations without any obvious reason. In sentiment indicators, this was particularly true for the Conference Board's consumer confidence index, which rebounded sharply in October after a weird drop in the prior month. Admittedly, the September release was revised up on the same occasion, but it remained the lowest figure on record in more than twelve years, despite the tough Covid period. **Given that household surveys usually move slowly unless a major shock occurs, it was difficult to know what had caused these erratic changes**. Sentiment among corporate managers fortunately looked more stable, and the ISM indices remained comfortably in their favorable zone, despite a new fall for the NAHB index, which focuses on homebuilders. There were similar inconsistencies in actual activity metrics. For example, September data from the Bureau of Labor Statistics showed that unemployment had risen to a (still low) level of 4.2% as the US economy had created very few jobs (29 000 in total and 9 000 in Manufacturing). However, the peak in August, although trimmed in revisions, remained a mystery for a typically soft month. **The Census Bureau's monitoring of durable goods orders showed a reasonably encouraging resilience in September**, which the Federal Reserve confirmed with its estimates of industrial production (+0.7% month-over-month) and capacity utilization (up to 76.9%, its highest level since April 2025).

These indicators also caused concerns on the inflation front. Even excluding food and energy, the BLS price indices were trending way above official targets in September, with 0.3% month-over-month at consumer level and 0.7% at producer level (which is usually considered to be a leading mover). Given the evolution of oil and agricultural prices, which reflected geopolitics and, in the second case, weather-related factors, **no need to say that the more comprehensive versions of the same indices were even worse**: they respectively rose 0.6 and 1.3% MoM. The Federal Reserve, which held its meeting at the end of the month, however did not raise its target rate, probably to avoid interfering with the US elections. The other major central banks did not move either, but news from the ECB nevertheless added to the uncertainty, in that Christine Lagarde announced that she would leave her position in early 2027, a few months before the end of her mandate.

The first earnings announcements were also consistent with the idea of continuing resilience in the economy, but **they did not reinforce the assumption of a dual pace splitting AI-related stocks and the rest**. In absolute terms, results were OK, but less systematically above expectations than in previous quarters, and the "beat rate" deteriorated as we progressed in the period. There were very different situations in the various sectors. The season started with



banks, which benefited from trading and lending, remained optimistic on M&A and tried to reassure about their direct and indirect exposures to the AI sector's funding. When results started to come from more diverse businesses, the picture became less clear. In Commodities, for example, Energy compared very favorably to expectations, whereas Materials had one of the highest disappointment rates on both revenue and EPS. Technology and Healthcare both posted a solid, homogenous showing, and Consumer Staples did even better this time, but most companies continued to make cautious comments. Coca-Cola, for example, recorded a 7% revenue growth, leading to an even stronger earnings growth, and raised its guidance, but warned that pressures on consumer spending were going to continue. Weirdly, **Royal Caribbean Cruises, which is highly dependent on fuel costs and whose products should be more economically sensitive, looked almost more confident** when it reported its own results.

Geopolitics however remained the main source of uncertainty. After a clear, although unexplained improvement at the end of September, **oil flows through the Strait of Hormuz came back to very low levels after reports of tankers being hit** by Iranian strikes or sea mines. Rumors, launched by the US President himself or other sources, kept announcing completely different developments. By mid-month, for example, Donald Trump was said to be considering to use the GBU-43/B (the US Army's most powerful non-nuclear bomb) to try and make a decisive move ahead of the mid-term election. Two weeks later, though, there were unconfirmed rumors that negotiations were being revived. The US diplomacy's U-turns also impacted Ukraine, whose civilians in major cities came under heavy Russian fire for lack of US-made interception equipment. The country even had the surprise to lose its access to the Starlink satellite communication service and its Starshield military version, which are part of Elon Musk's Space X. The service was restored after a few days, but no one knew for sure who had ordered this "outage" and why.

Meanwhile, on the domestic side, **opinion polls continued to shift slowly towards a defeat of the President's party at both Chambers in the mid-term elections**. Real Clear Politics' estimates, based on polls from a wide variety of sources, gave the "Dems" a 45-seat advance at the House, with only 26 of the 435 seats still looking uncertain. As regards the Senate, the expected score was tighter. Up until mid- October, studies had been suggesting that both parties had 46 seats almost "guaranteed" with the eight "toss-ups" deciding if a majority would prevail or if the Vice-President's vote would make the difference. However, a gradual shift took place in the last two weeks, so that the month ended with the GOP lagging 44 to 47 with nine 'too close to call" outcomes.

The effects: The US equity market kept hesitating until the last minute, all the more as several "Mag 7" were due to report at the end of the month. Our benchmark's net return ended at -0.89%. Despite a few disappointments on our favorite holdings, our strategy was well above.

The S&P 500 index closed above its September 30 level every day of the month, except on two occasions, one of which was the last session of October. **The market's sharp drop that day was caused by an accumulation of disappointments in closely-watched earnings announcements**. Alphabet had already triggered a shockwave the day before, and posted its largest one-day loss ever, with a 12.6% decline. New announcements, such as Amazon's unconvincing results and Intel's soft guidance on PC sales, weighed more broadly during the last session of the month.



Communication Services (-15.2%) and Technology (-6.8%) were the only two sectors with negative returns. The former owed its weakness to Alphabet but also Meta Platforms and other social media. Google's parent company missed forecasts on both its revenue and EPS, as the advertising sales generated by the Search division softened following the introduction of AI, and the company reported negative free cash flow in the quarter. Facebook's holding company moved less brutally, but the stock remained under pressure through most of the month as investors weighed its solid results against its continuing funding needs. Meta plans to raise up to $100B in equity, as well as issue various types of debt. The two giants had a large impact but the weakness in Communication Services was broad-based. Netflix lost almost 11% after issuing a guidance below forecasts, Applovin (which manages an in-apps advertising business) was down more than 21%. Telecommunication companies also suffered, after several deals by Starlink confirmed its intention to compete with a widescale mobile service, probably mixing a traditional cell coverage and a Direct-to-Device (satellite) service. As regards Technology, the correction mainly impacted semiconductor manufacturers and their equipment suppliers. Intel lost 45% overall, including almost 28% just after it reported its results. Soft PC sales, constrained wafer supply and an unfortunate, deadly explosion at one of their plants in Israel were the reasons behind this sell-off, but Sandisk (-33.8%) and Micron (-16.9%) also weighed, together with Nvidia and Qualcomm (both down 10.4%). The bottom seven performers in the S&P 500 index, which all lost more than 25%, were all technology stocks involved in semiconductors, storage or electronic equipment. However, Accenture in IT Services was the benchmark's strongest return (+40.8%) and several other software or services providers (Intuit, Gartner, etc) also did very well. **This mainly looked like a technical rebound** as these stocks had heavily underperformed and remain behind the index year-to-date.

Aside from these two sectors, all other categories were up in October. Energy led the way, with a 14% gain, on the back of a rebound in oil prices. **The barrel of light crude spent the second half of the month above $100**, and seasonal and geopolitical factors suggested that it would probably not fall durably in the foreseeable future. Behind this group, the best performers were mainly defensive categories, such as Consumer Staples, Utilities and Healthcare, which all gained about 10-11%. A number of defense-related stocks also did well, but Industrials (where most of them are classified) were weak anyway, and posted a return hardly above 0%.

As a result of the above sector trends, the market logically had a very extreme style bias. In S&P 's Pure family of indices, the Growth reference was down almost 10% whereas the Value series was up about 6%. **This, however, should be put in perspective**. Even in Technology, many growth stocks actually performed very well, but their small weight compared to that of the underperforming giants distorted the image given by style indices. Size also played a role and, with several of the Mag7 down significantly, less than 25% of the index constituents underperformed the broad market. This obviously facilitated active managers task, and we benefited too.

Interestingly, two of the holdings that we believe have the most attractive potential in the medium and long term (Intel and Alphabet) were their respective sectors' worst performers in October. As we will briefly discuss further in this document, we did not change our mind about them. Even though our other holdings managed to offset the impact when these stocks were falling heavily, our performance obviously suffered from these two incidents. However, **even in Technology and Communication Services, our selection's return far exceeded that of the corresponding sector index**. Tenable Holdings, for example, rose almost 39.5% as the specialist of cyber security announced new products as well as significant contract wins, reported strong results and issued a favorable guidance. We also benefited from having a diversified exposure to IT, with many holdings that did not feel the market's pressure on pure, riskier AI plays, are unlikely to see business disruptions from this technology, but stand to benefit from certain opportunities it creates. Among them, Itron, which makes smart meters for utilities, was also helped by its results and rose almost 11%, but eleven of our



15 Technology holdings, many of which were still due to report their latest quarter, outperformed the sector index (and most of them even beat the much higher return of our broad benchmark). The same applied, to a lesser extent, to Communication Services. Our large position on Alphabet obviously hurt, but our other two holdings, a social network with strong gains in monthly active users and a fast-growing mobile telecommunication company, did much better than sector average.

Outside these two groups, the impact of our exposure was much more moderate. In Healthcare, Eli Lilly and Regeneron achieved similar returns of about 22.5%, but this was largely offset by the weaker trends of Jazz Pharmaceuticals (- 6.7%, mostly because of its acquisition of Actio Biosciences, a specialist of rare epilepsies) and Iqvia (whose guidance looked a little conservative compared to its strong reported results). While our absence from Consumer Staples proved detrimental since this group performed better than usual, Consumer Discretionary was the only category where our stock selection was meaningfully behind the corresponding sector index. The underweight stance on Amazon was favorable, but Tesla rose 12.7% without us, on Elon Musk's plan to merge it with SpaceX (which would be an easy way to unlock the huge compensation package he got voted for himself a few years ago, without having to truly fulfill the requirements of the deal). Bright Horizons Family Solutions (- 13.7%) was one of our few holdings that reported disappointing results, with weaker-than-expected revenue and a soft guidance. Burlington Stores (- 11.3%), which will not report until the second half of November, fell in the absence of any significant company-specific news.

Overall, the earnings season and investors' growing focus on AI funding left some room for companies to shine in other areas than just computing and datacenters, and **our portfolio's balanced exposure continued to pay-off as it has been doing since mid-2025**. Our strategy's gross excess return in October was 1.62%, and the portfolio is up 18.94% since the beginning of 2026, 7.49% ahead of its benchmark.

Our decisions: With many companies waiting for quarterly earnings to communicate, there was not much news to trigger strategic changes in our portfolio. However, we decided to resell our stake in Morgan Stanley and let bottom-up details prevail in the purchase of a semiconductor stock.

Despite its poor ranking in our quantitative screening, it was a difficult decision to sell Morgan Stanley, which we viewed as a long-term pick in financial services. We were already underweight in Finance, and the bank combines a rather resilient wealth management division, a diversified securities business and an exposure to healthy fees generated by M&A and IPOs. It had just reported decent results, and the management's tone was rather positive about the future. In addition, the stock had already underperformed lately and, while its excess return since purchase was still comfortably positive, the timing did not look optimal for a sell decision. However, we thought short-to mid-term visibility was not great. **We feared postponements among the largest upcoming deals (and still maintain this view after Anthropics' announcement), as well as other effects** of higher interest rates, growing funding difficulties and a dilemma about credit risk.

Once more, our pick to reinvest the proceeds was in an unexpected sector, but bottom-up views prevailed as always.

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



Apart from these holding changes, our transactions of the month involved a number of "reweightings" meant to realign our holdings to their target exposure after earnings announcements or other events caused sharp variations. Fortunately, we had to trim our position more often than we had to reinforce it following bad news, but **we applied the same discipline in the case of Alphabet and Intel**. Thanks to its unique exposure to long-term AI trends through multiple areas (models, chips, datacenters, quantum computing, etc), the former remains a core holding and our only overweight among the former "FAAMG". As for Intel, our review of its earnings announcement showed that factors beyond the management's control (such as the impact of memory prices on PC sales and the accident at their fab in Israel) were hiding real progress made towards restoring the company's technical competitiveness in server/datacenter chips and developing the foundry business for third parties. Given that our confidence in this long-term turnaround was the main reason behind our investment, it was logical to consider the sell-off as an opportunity… even though the stock remained almost 80% higher than at last year-end.

As a result of market movements (which substantially reduced Technology's weight in the S&P 500 index) and the above portfolio changes (which added one more stock to our selection in the sector), **our strategy moved back to a slightly overweight stance in IT**. This move, which was not particularly intended, was the most visible in our portfolio's general characteristics, together with a slightly larger underweight on Finance. Most other deviations from the index, both at sector level and in growth and valuation metrics, remained relatively stable.

The outlook: In the near future, attention will focus on the mid-term elections, and Donald Trump's reaction if his party loses the two Chambers, as looks increasingly likely. Earnings reports and early indications about the holiday season should then return as the market's primary drivers.

Opinion polls have never been considered particularly reliable in the USA. This is due in part to the complex election system, which varies with states and allows mail-in voting for a large part of the population. However, even with this caveat, **the outcome of the November 3 election is unlikely to look great for the Republican party**. It would take a huge mistake of polling specialists for the Democratic Party to lose the House, and the Senate looks within reach. Only time will tell if a surprise is in the cards, but the key question anyway is elsewhere: how will Donald Trump react to the result if it is unequivocally a defeat, and what gimmicks will he find to keep behaving in the same way if the two chambers are against him? The riskiest period might well be ahead of us in this respect, if the Congress tries to curb his tendency to ignore it and govern through executive orders and "tweets".

In the medium-term, the new Congress might find ways of destabilizing the President to force him to adopt a more conventional behavior. Unless new elements come to light, we don't expect them to realistically consider an impeachment procedure, but they might want to stick their nose in the way Donald Trump's closest aides and family appear to be confusing their mission and their personal interest. A revised majority might also suffice to exercise a little more control on military operations and weapon sales, with potential effects both in Ukraine/Russia and in the Middle-East, where the lack of majority following the Knesset election in Israel also raised the level of uncertainty. However, this will probably not be powerful enough to allow a quick resolution. Regardless of the contagion risk, these conflicts mean that **many countries are poised to enter winter with their strategic energy reserves well below normal levels**. The actual impact will depend on



many factors, including the weather, but this vulnerability cannot be a positive factor for economic growth.

We also expect November earnings announcements to help investors get a more precise idea of how the US (and global) economy is trending. Many companies will start discussing 2027 in a more precise manner, and **it will be interesting to see if the optimism displayed last summer remains as affirmed as it was at the time**. We expect the period to confirm that the GDP is very largely driven by direct and indirect, AI-related investments, with everything else looking more uncertain, but we must admit that October data releases suggested that things were slightly less contrasted. Even if this is confirmed, we will probably be inclined to keep the slightly defensive bias we have been maintaining for a while. We do not think AI could be the first innovation ever that can spread from nowhere to everywhere without anybody questioning its sustainability, its value for the investments required, and the transparency of its financing. We trust there will be bumps before the real winners can be identified for sure. In every such technical revolution, **those who used to pretend they knew just because they were following the herd did not do better** than those who continued to analyze facts pragmatically, as we are trying to do throughout the year.

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