MARKET INSIGHT

September 2025

GENVIL
WEALTH MANAGEMENT & CONSULTING

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After a Summer Rally, Equity Markets Face Less Favorable Signs

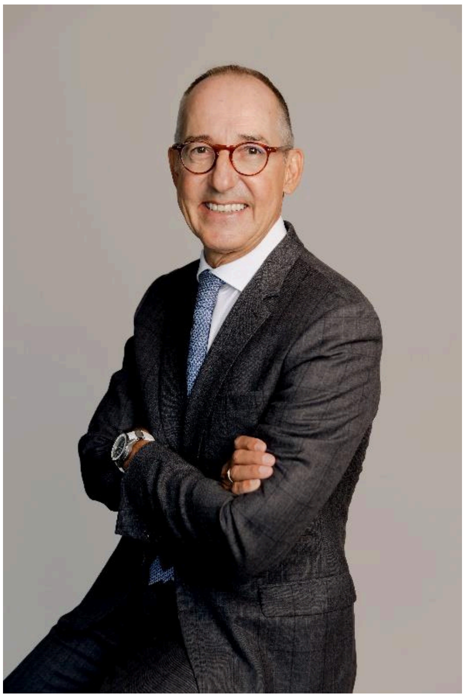
The summer period allowed equities to accelerate the upward trend initiated in May.
Beyond the adoption of the US budget law, t he fact that the “new deal” in trade desired by D. Trump did not trigger a chain of countermeasures was a more relevant factor explaining the positive behavior of equity markets.

The trade war has been avoided... but the effective average tariff imposed by the US is hardly different from what could be inferred from the April 2 announcements! Investors chose the “glass half full” policy: we did not enter into an endless cycle of tariff retaliation.
The excellent earnings season in the US and the renewed momentum of technology stocks (AI) obviously supported the trend, as did a calmer environment on US sovereign debt and tighter spreads on corporate bonds.

Even the sharp downward revision of US employment figures and the weakening of domestic private demand did not dent the enthusiasm.

These developments revived expectations of imminent monetary easing, to which J. Powell opened the door during his Jackson Hole speech at the end of August.

In this context, which can be likened to a certain stock market euphoria in light of the renewed expansion of multiples (P/E), it must be highlighted that the rise in equities, particularly in the US, has been driven by a relatively small number of stocks.



« The Fed’s rate cut is already priced into equity markets. »

FRANÇOIS SAVARY, CIO

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Moreover, the sharp decline in volatility, both in bonds and equities, leaves little room for unforeseen events.

Finally, it is worth noting the recent underperformance of momentum strategies, which could foreshadow a sector rotation in equities. In other words, the loss of leadership by technology stocks in favor of more defensive or value-oriented names may indicate greater investor caution towards equities in the near term.

In June, we increased equity exposure in portfolios by integrating a diversified investment on the energy theme—an essential element of the increasingly energy-intensive artificial intelligence revolution.

Up nearly 5% since launch, this dynamic and diversified certificate (30 US and European stocks) is meeting our performance expectations. Beyond day-to-day fluctuations, this investment theme holds strong medium-term potential, as the outlook for AI remains positive. NVIDIA's recent earnings release seems to confirm the validity of this assumption.

Apart from minor adjustments, we have maintained our equity weighting, which hovered around its neutral point (45% in a balanced profile) during the summer.

Conversely, we continued our policy of diversifying outside the leading US market by increasing exposure to emerging equities on the one hand and creating an allocation in Japanese equities (ETF) in our tactical strategies on the other.

This choice stems from our scenario of further medium-term US dollar depreciation—a supportive factor for emerging assets in the past—and the relatively favorable outcome of trade negotiations between Japan and the US.

All this comes in a context where the relative valuation of US equities remains expensive by international comparison (P/E of 24x versus a 10-year average of 19x).

As we write these lines, the resumption of the Fed's rate-cutting cycle is already priced into risky assets. US monetary policy therefore seems more of a risk than a support for equities in the short term, as they would struggle to absorb a further postponement of interest rate cuts in the US.

With confirmation of a domestic slowdown in the coming months, our scenario is based on a decline in US rates of at least 100 bps by spring 2026, with a first move in September (-25 bps). A soft landing of US activity remains the most probable scenario. This does not mean that less favourable alternatives (temporary stagflation, recession) should be ruled out.

« "While our equity allocation is broadly neutral, we have increased the diversification of our positions outside the US stock market." »

We must not delude ourselves: US equities are "pricing in" the idea that the US economy will hold no unpleasant surprises. Fiscal and monetary stimulus should initially limit the US cyclical slowdown before a modest improvement in growth in the second half of 2026. This central scenario underpins investor optimism.

The realization of such an economic trajectory is essential to allow US equity indices to continue their ascent over the next 12 months. At this stage, we see no evidence suggesting that such hopes are unfounded.

While European growth shows signs of slight improvement (PMI indices, German IFO) and the ECB has likely completed its rate-cutting process, the dollar should remain under pressure. Despite its recent stabilization, we expect further depreciation of the greenback over the next 6 months. Levels of 1.20–1.22 against the euro and 0.77 against the CHF seem realistic targets.

The reaction of the Swiss franc to the announcement of a 39% US tariff was contained both in scope and duration. Once the initial shock passed, the franc stabilized.

Slightly higher-than-expected July inflation numbers cooled expectations of a return to negative interest rates in Switzerland. The SNB had already signaled its reluctance to use this option since cutting the policy rate to 0% in June.

We continue to recommend an allocation to the Swiss franc within a diversified currency basket. The safe-haven status of the franc is not called into question in an uncertain international environment. The EUR/CHF pair should fluctuate between 0.92 and 0.95 by year-end 2025. Conversely, a rapid return to 0.90 against the euro, which we had previously considered, now seems less likely in the short term, given the uncertain economic consequences stemming from deteriorating trade relations with the US.

Although gold has consolidated since May, maintaining an overweight in this asset remains relevant. The expected decline in US interest rates should favor a new bullish phase in gold over 6–12 months. We have set a price target of USD 3700–3800 for 2026. A likely short-term acceleration in US inflation should further reduce the opportunity cost (real interest rates) of holding gold.

On the bond side, our strategy of overweighting corporate debt at the expense of sovereign bonds has been maintained. We also slightly increased bond allocations at the expense of cash during the period.

The recent narrowing of corporate spreads compared with government bonds leads us to reiterate the message of favoring higher-quality issuers over high-yield securities. Since we revised downward our expected trading range for US 10-year yields to 4.00–4.50% for the coming months, it seems appropriate to slightly increase the average duration of portfolios by strengthening the 5–7 year segment at the expense of shorter maturities (2–5 years).

Relative-value debt strategies, which are integrated into our allocations, remain attractive.

We maintain an overweight in liquid alternative assets (gold, Swiss real estate, long/short equity strategies) in our investment grids. These serve as protection against a likely return of market volatility.

In conclusion, the good performance of equities over the summer could pave the way for a “legitimate pause” in the short term. Investors easily climbed the “wall of worries” that characterized the international stage over the summer; however, doubts could resurface at any time. We are not chasing equities at current levels.

A marked expansion in valuation multiples and the pricing in of US rate cuts could justify a consolidation of markets in the short term. This would represent a healthy digestion of recent gains. Conversely, as long as economic data do not call into question the possibility of a US soft landing, there is no urgency to disengage from equities.

The first signs of sector rotation in favor of more defensive and/or value stocks should not be ignored. We are maintaining our exposure to these securities, whose performance has disappointed during the market rally since May 2025.

Ultimately, despite some less supportive signs for equities, we do not believe that the underlying equity trend is threatened.

As we write these lines, we are fully aware that the global context has changed since January 2025. However, economic data do not support the view of a significant recession risk capable of triggering a sharp decline in equities. In this respect, the “negotiations” of recent months have significantly reduced the risk of a trade war that investors had feared in the spring.

Whether one defends the theory of pragmatism or the less flattering view of a submissive alignment with Uncle Sam’s wishes, the key fact is that the shock of a world ruled by retaliatory measures has receded.

Moreover, it is difficult to point to a major risk to global financial stability. Recessions and sharp equity corrections often originate from financial shocks, such as the debt crises exemplified by 2008.

While legitimate questions remain over the future of the dollar and/or US public debt, recent developments have been reassuring. Certainly, any resurgence of doubts around these assets would lead us to reconsider our views. In this regard, we are keeping a particularly close eye on developments concerning the independence of the Federal Reserve.

The “chaotic” international environment requires constant vigilance. We do not deny the legitimacy of concerns about the global (geo)political situation. The summer showed that investors have a strong ability to adapt, especially if the US economy continues to avoid the pitfalls of recession.

Geneva, August 28, 2025

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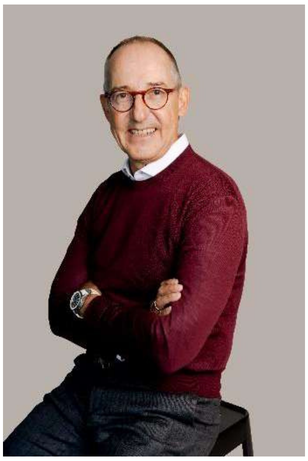

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