QUARTERLY REVIEW OF FINANCIAL MARKETS AND OUTLOOK

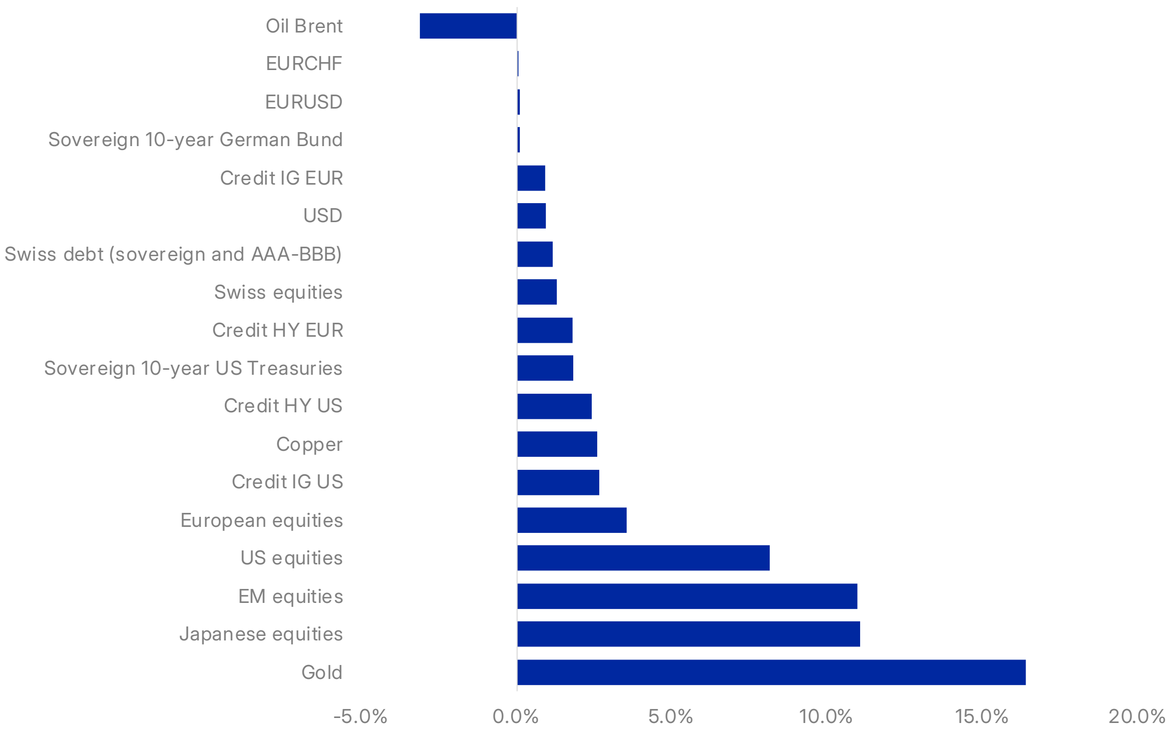
2025/Q3

Renalco

Contents

Overview

MAIN ASSET CLASSES
3-MONTHS PERFORMANCE



Source : Factset, 30/09/2025
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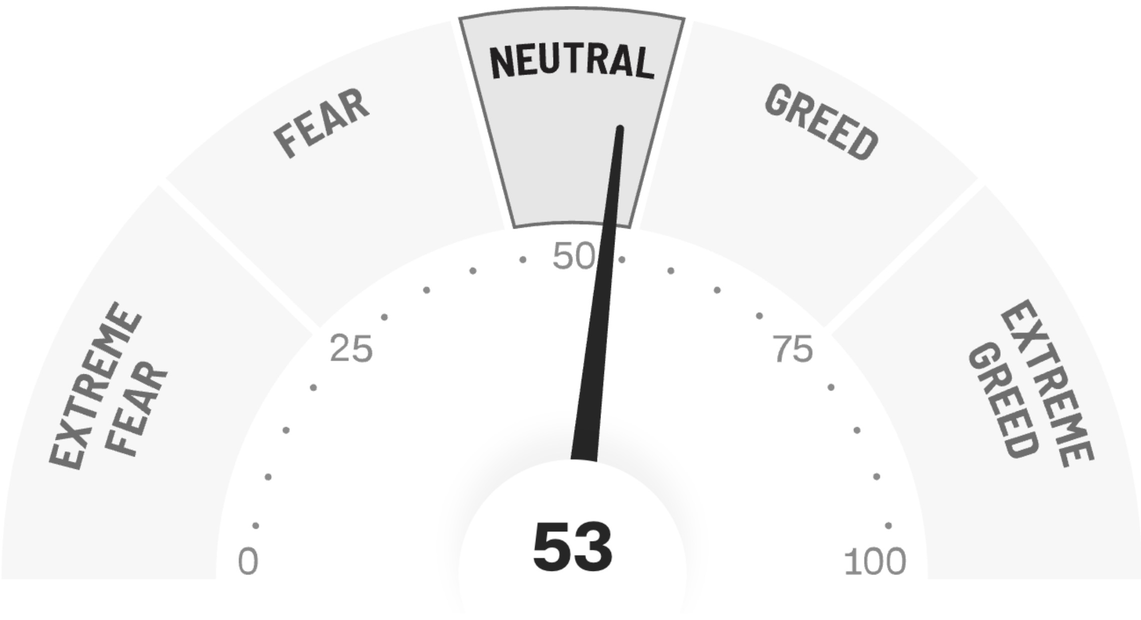
FEAR & GREED INDEX
WHAT EMOTION IS DRIVING THE MARKET NOW?



Last updated Oct 3 at 8:13:46 AM ET

Source : CNN Business, 3/10/2025
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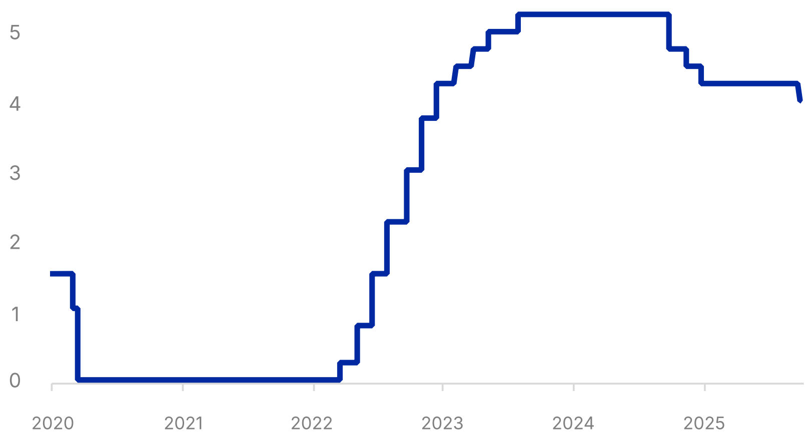
Macroeconomics

United States: “The Fed implements a risk management cut”

The central event of this third quarter was the return of rate cuts in the United States. The Federal Reserve resumed its monetary easing cycle, lowering the Fed funds target rate by 25 basis points (4.0-4.25%). The July (NFP: +79,000) and August employment reports disappointed (+22,000) and were accompanied by significant downward revisions to previous reports. In short, the year 2025 will have seen the first four months marked by an average of 123,000 job creations/month. The latest data updates reveal that the following four months saw a severe slowdown in job creation, with the monthly average over the period standing at less than 27,000.

Powell presented this rate cut as a “risk management cut.” Indeed, with inflation still running significantly above target (PCE: +2.7% y/y, Core PCE: +2.9%), the Fed cannot afford to ease its monetary policy too abruptly. Moreover, part of the slowdown in job creation is also due to the drastic reduction in immigration, which could explain why **unemployment remains contained (a slight increase from 4.2% to 4.3% in Q3)**. According to the FOMC’s economic projections, this preventive monetary loosening would help stem the rise in unemployment to a maximum of 4.5% at the end of the year. It would also allow activity to hold firm, since **the growth forecast for this year has been revised from +1.4% to +1.6%**. Also noteworthy is the new upward revision to Q2 GDP growth (+3.8% q/q y/y), the best quarter in over two years, although the partial recovery from the Q1 contraction due to trade flow shifts must be taken into account. With a Flash Composite PMI at 53.6, growth is continuing its strong summer momentum. Retail sales (+0.5% m/m vs. +0.2% expectation) have reinforced this sentiment. Finally, the Fed’s increase in inflation forecasts for next year from 2.4% to 2.6% calls for a little caution. For now, the central bank considers that customs tariffs would have only a “one-off” effect on price levels. But the impact of cost increases appears to be taking longer than expected.



Source : Factset, 30/09/2025
Past performance is not a guarantee of future performance.

Macroeconomics (...)

Eurozone: "The ECB is in a good position"

The eurozone gained visibility this summer, but at the cost of a trade compromise with the United States, the net effect of which is expected to be unfavorable. The agreement provides for 15% tariffs on US imports of European goods and commits the EU to purchasing more American energy and weapons, as well as to stepping up its investments across the Atlantic: in the absence of retaliation, the expected effect is doubly negative, for both growth and inflation. **However, the immediate economic situation has surprised on the positive side.** Activity continues to expand, with the composite PMI firmly anchored in the 50–51.5 zone since the start of the year, and Q2 GDP slightly above expectations (+0.1% q/q). In September, momentum reached its best pace in five quarters (flash composite PMI 51.2). On the price side, headline inflation has stabilized around 2.0% y/y, with underlying inflation at 2.3%. The reacceleration of negotiated wages (+4.0% y/y in Q2, boosted by one-off payments in Germany) and the rise in input prices in services (58.6 after 56.5) have revived a more conservative discourse from certain central bankers, encouraging the markets to rule out the possibility of a rate cut before the end of the year.

In this context, the ECB has opted for consistency: deposit rate maintained at 2% unanimously for the back-to-school meeting, second consecutive break, and inflation projections unchanged to 2025 (2.1%), consistent with the small rebound observed to 2.1% in September. The better activity signals of recent months have led the institution to raise its growth forecast to 1.2% for this year. **The central bank, for its part, no longer seems in a hurry to change its position,** ready to let time play out as long as activity holds and inflation remains on a trajectory compatible with the target.

United Kingdom: "Inflation is not falling"

After cutting its rates by a very narrow 25 basis points in August, the Bank of England kept its rates at 4% in September. At this last meeting, the message sent by the votes of the Monetary Policy Council proved particularly cautious (only 2 in favor of a rate cut against 7 for the status quo). **Indeed, British inflation is not falling** (+3.8% and +3.6% for core inflation in August), which makes the United Kingdom the G7 country with the highest inflation. The markets no longer anticipate a rate cut before next spring.

While activity was on track during the first half of the year, it is showing signs of slowing down, as evidenced by GDP growth (+0% m/m in July) and PMIs (Composite: 51 vs. 53 expected in September). The question of the Labour government's ability to revive growth while limiting inflation is more pressing than ever. The budget that Rachel Reeves will unveil at the end of November could be a turning point.

Macroeconomics (...)

China: "An anti-involution campaign to clean up the economy"

The Chinese economy has held up well in the face of the shock of the trade war, but its dynamism remains unbalanced. The industrial engine is running at full speed—persistent overcapacity, relatively solid industrial production, and, above all, recurring trade surpluses (>$100 billion)—while domestic demand is struggling to keep up. Retail sales have disappointed month after month (+3.4–4.8% y/y, below expectations), gross fixed capital formation is not up to par, and economic signals are mixed: the Caixin manufacturing PMI hovered around the expansion threshold, while services briefly surprised on the upside (52.6, their highest since mid-2024), a move that requires confirmation.

In this context, the official growth target of around 5% remains achievable, but at the cost of an ever-increasing contribution from supply and exports. The central problem is prices. Despite a brief shift into positive territory at the start of the quarter (CPI +0.1% y/y), deflationary pressures remain palpable: consumer prices stable then back into negative territory (up to -0.4% y/y), and producer prices continue to decline (PPI around -3% year-on-year). The authorities are favoring a supply-side response: "regulating disorderly competition," organizing the withdrawal of obsolete capacity by conducting **an "anti-involution" campaign to end price wars**. As the end of the year approaches, rumors of a last-minute stimulus plan are resurfacing—a strategy already proven over the past two years—which could secure the growth target, without resolving the structural problem: an economy driven by industry and exports, still awaiting a real rebalancing toward consumption.

India: "Facing Trump's tariffs"

In India, customs tariffs were also in the news, as Trump imposed 50% tariffs on New Delhi, a sanction imposed after the latter refused to stop its purchases of Russian oil. Indian authorities reacted quickly to this threat to growth by easing **GST** (equivalent to VAT), which should help support growth. In this regard, PMIs remain very positive (PMI Composite above 60), and growth in the last quarter was revised upwards to +7.8% year-on-year. Disinflation continues, thanks in particular to a favorable monsoon, which exerted downward pressure on food prices. **Inflation is now at the lower end of the RBI's target range (2-6%).**

However, the central bank preferred to maintain its rates at its August meeting (5.50%) in order to limit the depreciation of the rupee, which remains under pressure since the tariff announcements. Diplomatically, **Delhi has also moved closer to Beijing and Moscow**, with the three countries appearing to present a united front at the Shanghai Cooperation Organization summit in September. This was a way of responding to Washington.

Macroeconomics (...)

Japan: "The BoJ faces the challenge of political instability"

The Japanese economy has regained some momentum, buoyed by the trade agreement concluded with the United States, which has restored confidence and, above all, averted the threat of 25% tariffs on automobiles. Conditions remain demanding—general 15% tariffs, purchases of American arms and agricultural products, and uncertainties over the distribution of profits from the investment fund to be created in the United States—but they have preserved the industrial heartland. Since June, economic surprises have been rather favorable: the Tankan survey has improved (Large Manufacturer Index at 13, versus 10 expected) and the flash composite PMI remains expanding (51.1 in September).

The dynamic therefore remains positive, despite **a fragile political backdrop** - the loss of the LDP majority in the upper house on July 20, repeated episodes of tension on long-term rates - and increased uncertainty following **the resignation of Prime Minister Ishiba**, pending the outcome of the **Takaichi / Koizumi duel for the party leadership in early October**. Inflation slowed for the seventh consecutive month (+2.7% in August), but underlying pressures remain high: inflation excluding energy and fresh products remained at +3.3% y/y, above headline inflation, and service prices rose by +1.5% y/y. Wage signals point in the same direction: the shuntō and the prospect of an increase in the minimum wage suggest tensions are only just beginning, **a diagnosis relayed by Ueda in Jackson Hole by pointing to labor shortages**. **The Bank of Japan has maintained its key rate at 0.5%**, but the trajectory remains upward: the vote was not unanimous (two governors in favor of an increase) **and an increase by the end of the year is becoming increasingly likely**.

Switzerland: "Tariffs are worrying"

The Swiss economy recovered during the summer, but on fragile foundations. The hard data was reassuring: unemployment remained contained (2.7%) and inflation stopped flirting with deflation, returning slightly to positive territory (+0.1% then +0.2% y/y). Consequently, **the Swiss National Bank left its key interest rate unchanged at 0%** and the markets no longer anticipate further monetary easing this year, ruling out the possibility of a return to negative territory. However, there has been a deterioration in the business climate and consumer confidence, undermined by the escalation of American protectionism. The shock is indeed coming from outside.

The announcement of 39% customs duties by the United States, targeting a pharmaceutical sector that is key to the Swiss economy, has shattered the improvement in sentiment indicators that began in July. The KOF, which had returned to the neutral zone around 101, fell back to 97.4, while the manufacturing PMI fell back to around 49 and consumer confidence deteriorated further (-40). **The SNB estimates that inflation, which returned to +0.2% in September, is not expected to fall again this year**; but, faced with the trade shockwave and the gloom of the surveys, it is approaching the future with caution, **reducing its growth forecast to 1% for next year**. Overall, Swiss dynamics remain driven by a certain domestic resilience and a solid labor market, but the balance is precarious as long as tariff uncertainty weighs on export sectors.

Bond Markets

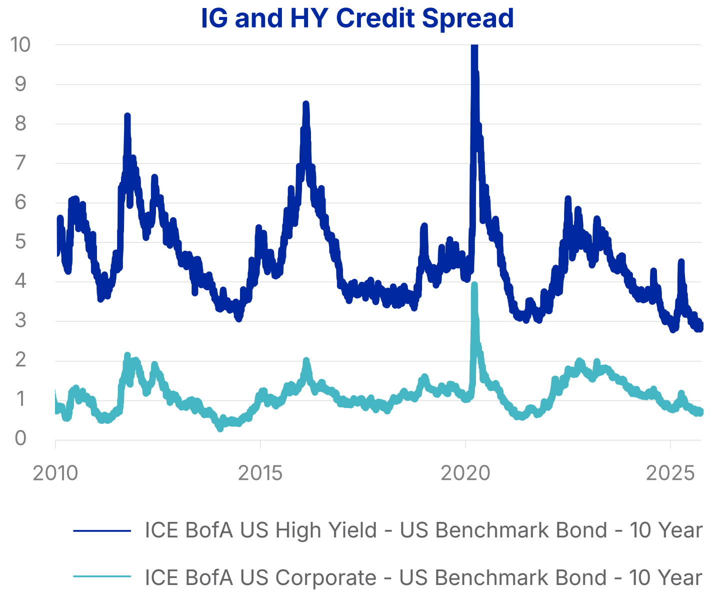
Rates: "The American 10-year faces the challenge of 4%"

In the wake of the weakening US labor market, rates have generally fallen in the United States. The US curve has steepened slightly via a decline in the short end, while the long end has re-correlated with expectations of monetary easing. While 2-year rates remain firmly anchored between 3.5% and 3.6%, which reflects the anticipation of two additional rate cuts contained in the September dot plots, **long-term rates have rebounded to 4% and are hesitant to cross this Rubicon**. Indeed, US growth remains very well oriented, while inflation refuses to return to the 2% path.

In Europe, long-term rates continued their upward trend. Tensions over public debt remain palpable, as German debt re-indebtedness will materialize next year. The political crisis in France has led the OAT-Bund spread to settle permanently above 80bp, while the BTP-OAT spread has reversed.

Credit: "Further tightening of spreads"

Activity was very strong this quarter. Expectations of rate cuts in the United States, along with strong economic indices on both sides of the Atlantic, enabled risky assets to reach new records. Thus, mirroring the record-high equity markets, **credit spreads hit record lows in the US, both in the IG and HY segments**.



Source : Silex, Factset, 30/09/2025
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A point worth highlighting and which highlights investors' appetite, this new tightening of credit indices occurred particularly during a very prolific month of September in terms of new issue supply. September 2025 was indeed one of the most fertile months in history on the primary market with more than $230 billion of issues overall. This could have weighed on secondary valuations, but overall, the market held up very well thanks in particular to the very strong final demand which often made it possible to revise the yields offered downwards.

Equity Markets

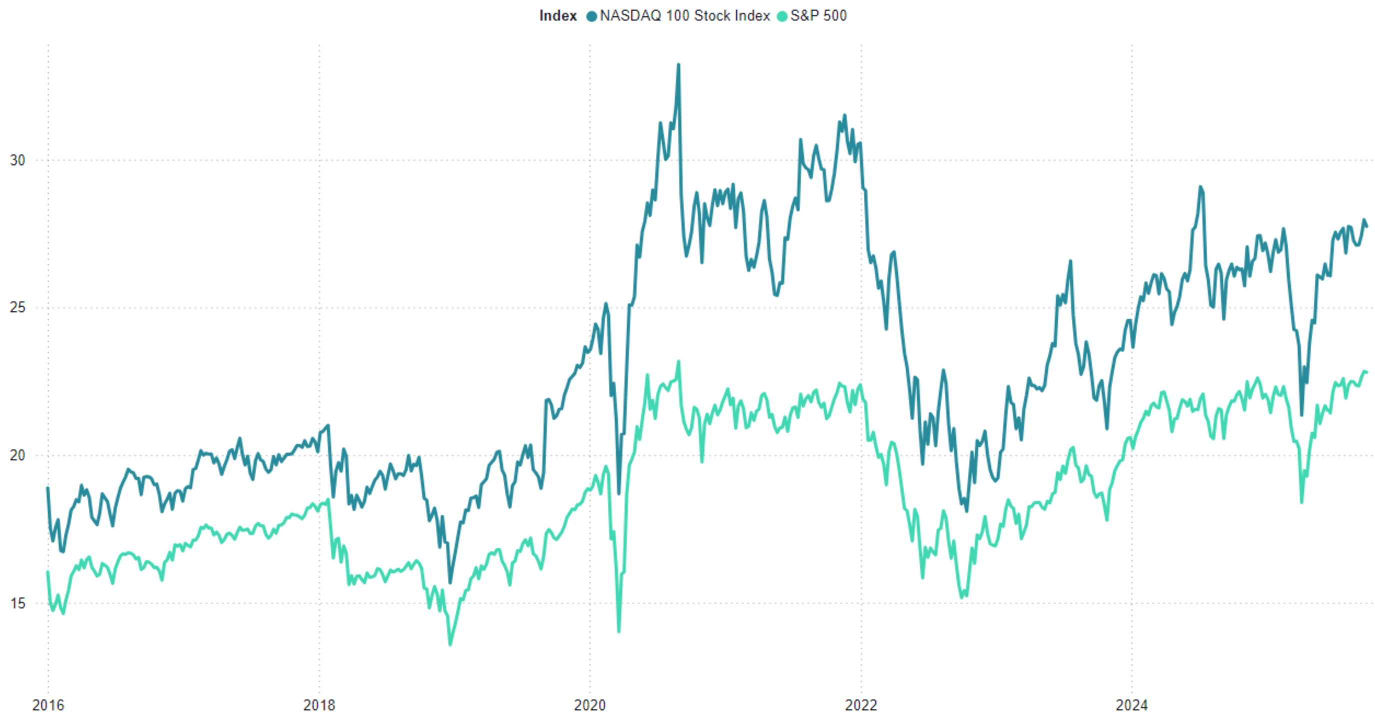
Equity: "US markets are piling up records"

Liberation Day rally continued on the equity markets throughout the quarter (S&P 500: +8.1%, Nasdaq 100: +9.0%). The excitement in the tech sector remains the main driver of the markets, which are going from record to record. The Magnificent Seven are logically benefiting from this (BM7P: +17.5%), well helped by the winning return of Tesla (+40%) and, above all, the still very solid results of Nvidia (+18.1%). The AI ecosystem also benefited from an excellent publication from Oracle (+28.7%) and the return to the race of Intel (+49.8%).

The US economic environment remains buoyant, as evidenced by **the upward revision to Q2 economic growth (+3.8% q/q annualized)** and PMIs firmly in expansion territory (Composite: 53.6) to end the third quarter. Following the deterioration in employment observed in recent months, the Federal Reserve has cut rates, opening the door to a monetary easing cycle.

Regarding sentiment, Bank of America's September Fund Manager Survey showed a kind of exuberance that doesn't seem to worry investors too much. **As a result, market dips have been bought fairly systematically**, so much so that according to Factset, S&P 500 stocks are now trading at nearly 22 times 12-month forward earnings, a level surpassed only during the dot-com bubble and after the Covid pandemic.

12-month forward Price Earning Ratio by week by index



Source : Silex Carat, Factset, 26/09/2025
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Commodities

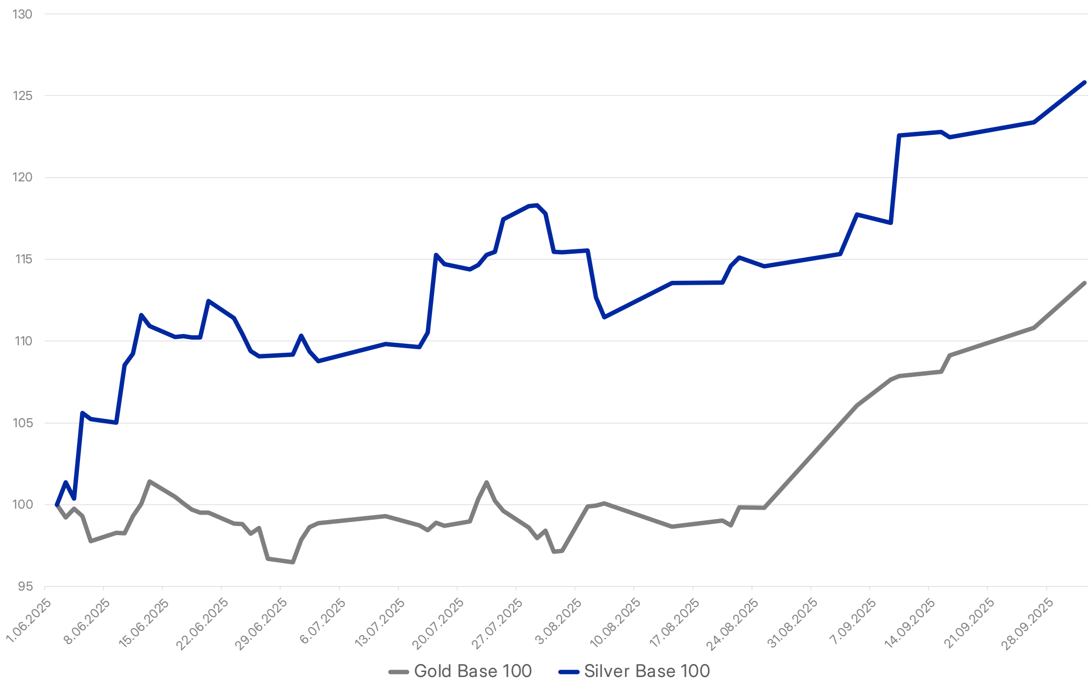
Oil: "Balances remain bearish"

Oil shows a downward trend over the quarter (Brent: -3.1%). The last few months have been dominated by a tug of war between geopolitical risk premium and overabundance of supply. The threats of "secondary" sanctions brandished by Washington against Russian crude have periodically revived a risk premium, without managing to reverse a more prosaic market reality: **supply remains in excess** and Brent repeatedly hits a psychological ceiling around $70 (a threshold that seems to constitute Trump's tolerance limit). In this context, the OPEC+ agreement - sequential production increases resulting in a new increase agreed for October (+137 kb/d) - served as a wake-up call: **the voluntary cuts of the last two years have now been erased and the market must deal with a regular additional flow**. The unfavorable gap to WTI has widened under the effect of American fundamentals: inventories above expectations and recovery in the number of rigs after the low point of early August. **Overall, geopolitics blew hot and cold, but it was excess supply—fueled by OPEC+ and reinforced by less buoyant demand signals—that set the tone for a quarter capped below $70.**

Precious Metals: "Gold Shines, Silver Soars"

Gold (+16.4%) and silver (+29.1%) both performed stratospherically in the third quarter. On the gold side, the $3,500 ceiling was largely exceeded after the Fed announced that it would cut rates. The multiple attempts to **destabilize the central bank** led by the Trump administration have also created a favorable environment for the "barbaric relic." Overall, demand from central banks and retail investors (via ETFs in particular) remains strong. **Silver is doing even better**, bringing the gold/silver ratio to a one-year low, around its average of the last 5 years. Over the long term, we prefer gold, in which central bank interest is particularly pronounced.

Gold vs Silver (Base 100 since June 1st - Oct 2nd, 2025)



Source : Macrotrends.net, 03/10/2025
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