Investment Outlook

MOVE ON

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RATES

USTs

We remain LONG tactically, as we continue to believe that the US economy is not overheating, that the market pricing of the Fed is too hawkish, and that carry considerations remain supportive.

That said, in line with our recommendation after the Fed 's July meeting, **we maintain our threshold for further accumulation at 4.90-5.00% and raise our threshold for turning NEUTRAL at 4.40%** (vs. 4.20% before).

Despite the attractive levels of UST yields, the attempts of the Trump administration to contain the rise of long-end yields and the more hawkish-than-expected speech by Chair Warsh at Jackson Hole, risks continue to lean towards higher yields in the near term in our view, especially at the long-end of the curve, due to volatility stemming from the new Fed's Chair approach to monetary policy, material upside risks to the 2026 deficit from IEEPA tariffs refunds and to a less buoyant-than-expected demand for USTs, especially from foreigners.

Curve-wise, we continue to prefer the 2-5Y maturities compared to longer ones.

Strategically, we maintain our NEUTRAL stance. While our view that economic growth will remain around potential and that inflation will remain close to target might lead the Fed to adopt an easing bias in 2027:

1) The Fed outlook remains extremely uncertain and much of the Fed's action will depend on the outcome of the various task forces appointed by Chair Warsh. Meanwhile, we expect rates markets to continue pricing in an "uncertainty" premium, especially at the long-end of the UST curve.
2) While the deficit/GDP ratio could be lower in 2027 compared to 2026 (due to the fact that the Treasury will reimburse most of the IEEPA-related tariffs in 2026), UST net issuance will still likely be north of USD 2tn, while global gross issuance from hyperscalers might increase further compared to this year, leading to some crowding out effect.
3) Demand for USTs from foreign private investors is slowing down. While we do not think this is the beginning of a structural trend, it could signal an increased price sensitivity from this category of key investors.

Bund

We remain LONG tactically but increase further our threshold for extending exposure to 3.35% (from 3.25% previously). **Meanwhile, we raise our threshold for turning NEUTRAL to 2.90%** (from 2.75%).

While Bunds continue to trade cheap compared to macro fundamentals, we do not see any catalyst for a sharp rally in the near-term for the following reasons:

1) The persistence of the Middle-East conflict is keeping energy prices high, preventing, on the one hand, breakeven rates from declining towards pre-war levels, and, on the other hand, keeping monetary policy expectations on the hawkish side.
2) At the same time, economic growth in EA has remained more resilient than expected, even considering high energy prices. This is keeping real yields at record-high levels.
3) Uncertainty around the Fed's monetary policy has driven term premia higher, especially at the long-end of the curve, with some spill-over effect on the Bund curve.

Curve-wise, we continue to prefer the 2-5Y maturities compared to longer ones, and we would position for a steepening of the curve.

Strategically, we switch to a POSITIVE stance (vs. NEUTRAL with positive outlook before). For the following reasons:

1) At current levels, Bund real yields have priced in all the positive news in terms of growth, and most of the increase in supply pressure going forward (mainly from Germany).
2) Our baseline is that energy prices have reached their peaks and this should cap any additional increase in breakeven rates.
3) We expect EA inflation to decline to target in 2027, with the ECB delivering one to two rate cuts in H2 to take back the monetary policy restriction delivered in 2026 and take the deposit rate back to neutral territory.

BTP

We remain LONG tactically but increase further our threshold for extending exposure to 4.25% (from 4.05% previously)**. Meanwhile, we raise our threshold for turning NEUTRAL to 3.80%** (from 3.50% previously).

On the one hand, the decision to raise the accumulation bar on BTPs reflect the higher accumulation threshold on Bunds. On the other hand, it takes into account that we are approaching the beginning of the 2027 budget process. While we believe that the government's commitment to fiscal discipline remains intact, the request to activate the National Escape Clause, mainly for energy risk, is a point of attention. Moreover, this will be the last budget before the general elections in 2027, another factor that requires monitoring and could lead to higher BTP volatility in the fall compared to previous years.

Strategically, we remain NEUTRAL and maintain our positive outlook. Our strategic position on BTPs remains slightly more cautious than on Bunds due to the general elections in 2027 (the window opens already in April). While we expect the next Italian government to remain committed to fiscal discipline, we cannot yet be sure that BTPs will continue to benefit from the same level of political stability as in the last few years. Moreover, with presidential and possibly parliamentary elections in France next year some (moderate) spillover could lead to a higher BTP-Bund spread, taking into account that current levels of sovereign spreads are historically low. Last but not least, Italy is more exposed, compared to other EA countries, to high gas prices.

EQUITY

We upgrade our tactical stance to LONG for September (from NEUTRAL). Global equities have broken above their previous range, while resilient Q2 results and a more supportive monetary-policy outlook have improved the near-term risk-reward. Our LONG stance remains moderate, given elevated valuations and a demanding earnings backdrop.

September seasonality remains a risk, but not a sufficiently strong reason to stay NEUTRAL. The month has historically delivered weaker returns and higher volatility, but seasonal patterns have become less reliable. We see this as a reason to avoid chasing the market rather than as a standalone negative signal.

Regionally, we upgrade the US to LONG (from NEUTRAL) **and move Europe to NEUTRAL** (from LONG). The US offers the strongest earnings visibility, while lower Fed-hike expectations and greater energy independence provide additional support. European earnings remain solid, but Energy accounts for around 28% of expected 2026 EPS growth, while higher oil prices represent a headwind for the broader economy. We remain NEUTRAL on EM, although with a positive bias and a preference for Korea and Taiwan. We maintain our SHORT stance on Japan, given the risks from BoJ tightening, higher yields, and potential yen appreciation.

From a sector perspective, we move from NEUTRAL to a mild cyclical tilt while remaining style-agnostic. We remain LONG Banks and Insurance and upgrade Capital Goods to LONG (from NEUTRAL), supported by broader market participation, improving manufacturing activity, and sustained investment in power generation, defence, and industrial capacity. Elevated valuations nevertheless warrant selectivity. We also upgrade Energy to LONG (from NEUTRAL) as a hedge against renewed geopolitical and oil-price risks. We cut Consumer Durables & Apparel to SHORT (from LONG) as US and Chinese consumer data soften. Food, Beverage & Tobacco and Pharmaceuticals remain our preferred defensive exposures, while we upgrade Utilities to LONG (from SHORT) following recent underperformance and supported by structural electricity demand from data centres.

Within Growth, we upgrade the AI-infrastructure complex to LONG through Semiconductors and Technology Hardware & Equipment ex-Apple, both previously NEUTRAL. Recent company guidance confirms that AI investment remains strong and is broadening beyond GPUs. We favour memory, optical networking, servers, power, and cooling infrastructure. We remain NEUTRAL, with a negative bias, on Software, where AI monetisation is less visible, and downgrade Media & Entertainment to NEUTRAL (from LONG).

The near-term outlook remains far from one-sided. Further consumer weakness, higher oil prices, or a renewed increase in Fed-hike expectations could generate volatility. We would reassess the tactical LONG stance if earnings revisions or market breadth deteriorated materially.

Strategically, we maintain our rolling 12-month OVERWEIGHT stance on equities. Resilient growth, strong corporate profitability, and continued AI investment support the medium-term outlook. **With US real GDP expected to grow by around 2.1% in 2027, we forecast S&P 500 EPS growth of approximately 13% next year**, slightly below current consensus. This reflects solid revenue growth, modest margin expansion, share buybacks, and an AI-driven earnings contribution beyond that implied by traditional macroeconomic relationships.

We expect returns to become increasingly earnings-driven, while broader participation should create opportunities beyond mega-cap Technology. We would continue to view meaningful market weakness as a buying opportunity.

FX

Tactically, we remain NEUTRAL on EUR/USD and DXY.

Over the last month, EUR/USD has gained momentum on the back of better-than-expected EA growth data. Moreover, uncertainty around the Fed's reaction function and the Treasury's decision to increase the buybacks amount of debt at extra-long end maturities weighed heavily on the dollar, while the persistence of the conflict in the Middle East, higher energy prices and a more hawkish-than-expected speech by Chair Warsh at Jackson Hole failed to offset weakness from other factors. Against this backdrop, the dollar index has come back to trade in the lower end of the range prevailing since the start of the US-Iran war.

On a short-term perspective, at these levels we think that the EUR has already priced in most of the positive economic momentum and that a possible additional hike by the ECB would do little to support the common currency.

That said, we do not see clear catalysts in favour of the dollar: speculative positioning on the dollar is still net long, while we think that market pricing of the Fed is too hawkish.

Strategically, we remain NEUTRAL on EUR/USD and DXY, for the following reasons:

1) We continue to believe that a gradual normalisation of the political risk premium, alongside the approaching midterm elections, could prompt a shift away from a strategic negative view on the greenback. In this process, the Fed's and Chair Warsh's new approach to monetary policy will be the wild card, but we expect more clarity towards year-end, which could prompt investors to reprice the "Fed premium".
2) If the disinflation process in the US continues, the Fed could shift to an easing bias already at the beginning of 2027, while we see the ECB on hold until H2 2027.

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