



STRATEGY UPDATE • SEPTEMBER 2025

Markets Hold Steady Amid New Uncertainties

KEY TAKEAWAYS

- We remain overweight equities and alternatives, underweight bonds, supported by resilient growth, stable inflation, and a policy mix that sustains liquidity.
- Tariffs have not yet materially affected global activity; we expect volatility but no near-term drag, though longer-term trade frictions remain a risk.
- Sovereign debt concerns are a slow-burning vulnerability but not an immediate driver of allocation decisions.
- Emerging Markets outperformed in August; we prefer diversified Asia exposure over concentrated China bets, while Europe remains attractive via defence and industrials.
- Liquid alternatives offer a compelling replacement for bonds as yields compress, while gold and energy benefit from weaker USD, lower rates, and resilient demand. Pullbacks are best used to rebalance into high-quality cyclicals and gold for hedging.

MARKET REVIEW

Markets entered September on a constructive footing, with equities extending gains despite alternating bouts of optimism and caution. The S&P 500 pushed to new highs while the Nasdaq consolidated strength, underpinned by the AI-driven mega caps that continue to define US equity leadership. Importantly, the rally has broadened: sectors such as industrials, healthcare, and financials have begun to deliver stronger earnings momentum, reducing dependence on technology alone. In Europe, equities lagged the US in headline terms, but order books for industrial and defense companies remained robust and inflation trends provided some reassurance. Emerging Markets outperformed in August, buoyed by a softer USD, attractive relative valuations, and selective strength across Asia. Chinese equities saw a modest rebound, but flows remain hesitant, underscoring the political and structural challenges facing direct China exposure. Tariff headlines dominated the newsflow early in the month, sparking short-lived volatility, but the measures have yet to show any material effect on growth or trade

volumes. For now, markets appear to view tariffs more as political bargaining chips than as a structural drag.

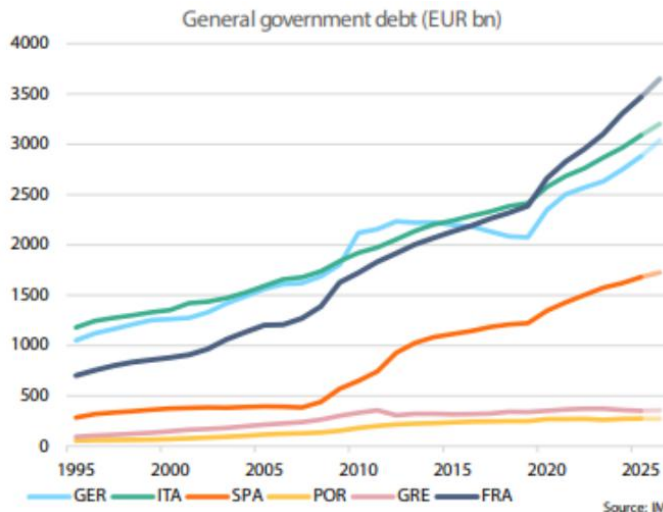
Second-quarter earnings season reinforced the impression of resilience. Roughly four out of five US companies beat expectations, with margins proving more robust than feared and corporate guidance leaning cautiously positive. Europe's earnings beats were less widespread but still better than consensus in industrial and export-oriented sectors. The combination of resilient top-line growth and disciplined cost management has kept the earnings cycle intact, and with liquidity conditions improving, investors have been willing to reward corporate execution even in mature sectors. This **broadening of earnings strength beyond technology** is one of the most encouraging features of the current market.

MACRO OUTLOOK

At the macro level, the backdrop remains supportive. Inflation in the US and Europe has stabilized closer to central bank targets, easing concerns of another post-Covid style overshoot. Growth data in the major developed economies has consistently surprised to the upside, with labor markets cooling without collapsing. This combination creates room for monetary easing. The Federal Reserve is widely expected to begin cutting rates before year-end, while the ECB retains an accommodative stance as European inflation normalizes further. **Fiscal policy is also turning more supportive.** Trump's "beautiful bill," due to be implemented in 2026, promises significant tax cuts, which will further expand liquidity in the system. Taken together, the combination of resilient growth, benign inflation, and pro-growth policy settings represents one of the most equity-friendly macro environments in recent years.

SOVEREIGN DEBT

That said, **risks are not absent.** Sovereign debt concerns are once again in focus, from the political gridlock in France to Italy's high financing needs, Japan's structural debt burden, and the growing US deficit. These issues are serious in the long run, but history suggests they are slow-moving threats rather than catalysts for near-term market dislocations. Investors must remain aware, but we do not see them as the basis for immediate allocation changes. Similarly, tariffs could accumulate into a drag if significantly escalated, but for now, they remain more of a headline risk than a true macro driver.



EQUITY POSITIONING

From an allocation perspective, **we maintain an overweight in equities.** In the US, the AI theme continues to power the Mag 7, and with earnings momentum holding, we see scope for further upside. Industrial reshoring, infrastructure investment, and capital spending cycles add further depth to the US story. In Europe, industrials and defense remain our preferred exposures, backed by strong demand visibility and reinforced by multi-year NATO commitments to higher defense spending. Europe has lagged the US in recent months, but valuations are attractive and the thematic support is solid. In Emerging Markets, we prefer diversified exposure to Asia rather than concentrated bets on China. This approach allows us to capture the region's structural

growth drivers - from demographics to consumption and supply chain realignment - while avoiding the boom-bust volatility often associated with China.

FIXED INCOME & ALTERNATIVES

Fixed income, by contrast, offers little appeal in the current environment. With rates trending lower, the prospective returns on core bonds are diminishing, leaving yields unattractive compared to equities or alternatives. We therefore advocate allocating to **liquid market neutral alternatives** as a bond replacement. Strategies such as market-neutral, macro, and absolute return equity funds are capable of generating mid-to-high single-digit returns with volatility comparable to bonds, providing both diversification and liquidity. These approaches allow portfolios to retain income-like characteristics while mitigating the opportunity cost of holding traditional fixed income at low yields.

COMMODITIES & OUTLOOK

Commodities add further balance. Gold continues to benefit from lower interest rates, a softer USD, and stable inflation, while maintaining its role as a hedge against geopolitical risks. Energy, after underperforming earlier in the year, is positioned to rebound as global demand holds steady and supply constraints persist. The resilience of the global economy suggests that energy consumption will remain robust, and valuations in the sector are no longer stretched.

In conclusion, we remain constructive on risk assets. Equities are supported by resilient earnings, abundant liquidity, and a broadening rally that extends beyond the technology sector. Alternatives offer compelling risk-adjusted returns as substitutes for bonds, while gold and energy provide diversification and hedging benefits. Tariffs and sovereign debt remain sources of volatility but have not undermined the positive medium-term outlook. We therefore keep an overweight in equities and alternatives, underweight in bonds, and stand ready to use pullbacks as opportunities to add to high-quality positions. The focus remains on structural themes - AI, defense, industrials, and Emerging Markets ex-China - which we believe will continue to generate superior returns as the cycle evolves.

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GENERAL CONTACT · Acumentum AG · Stadthausquai 1 · 8001 Zurich · Switzerland
Tel. +41 43 497 27 42 · Fax +41 43 497 27 43 · info@acumentum.ch · www.acumentum.ch