

Quarterly Investment View



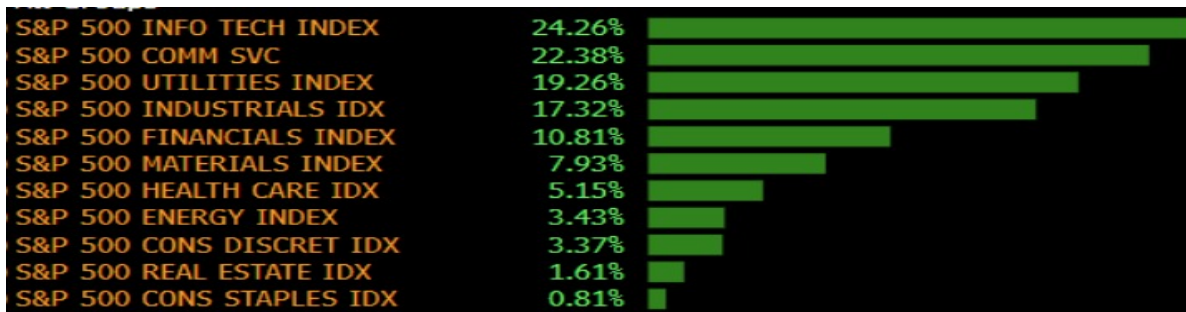
Outlook US Equities: Continued Rally, Sector Rotation or Market Decline?

Since the tariff shock in April, the U.S. equity market has charted an almost singular trajectory: upward. However, beneath the surface of this broad-based rally lies a more concentrated dynamic. The gains have been disproportionately driven by a narrow cohort of mega-cap technology firms, buoyed by sustained enthusiasm for artificial intelligence. Crucially, the sector's outperformance has not been solely a product of speculative fervor. Instead, it has been underpinned by robust earnings growth — an important distinction that lends greater credibility to the rally.

Looking ahead to the upcoming earnings season and the final quarter of the year, profit growth within the technology sector is projected to significantly outpace that of the broader market. In Q3, technology earnings are estimated to rise by over 11%, compared with approximately 6% for the S&P 500 overall. Given the substantial index weighting of technology companies, this growth serves to elevate aggregate earnings for the index — masking the more modest performance expected from non-tech sectors.

While the fourth quarter may bring some deceleration in tech earnings — due to normalization, tougher year-on-year comparisons, or emerging margin pressures — the sector is still expected to lead. However, any signs of margin compression could be interpreted unfavorably by markets.

US Stocks mainly driven by technology and communication



Source: Bloomberg, Sector Performance of the S&P 500 Year-to-Date

S&P 500: Quo vadis?



Source: Bloomberg S&P 500 Performance Year-to-Date



Outlook US Equities: Continued Rally, Sector Rotation or Market Decline?

Looking into 2026, consensus forecasts continue to anticipate double-digit earnings growth in the technology sector — around 12% — driven by ongoing investment in AI, capital expenditures, and infrastructure expansion. That said, some analysts now project that S&P 500 earnings as a whole may also achieve double-digit growth. Should this materialize, it would erode technology's relative earnings advantage and could potentially alter the market's current leadership dynamics.

Additional uncertainties persist for high-tech companies, most notably surrounding export restrictions, the foreign sales and profits claims by the US administration, and an increasing degree of intervention in the free-market system. All these initiatives under the current U.S. administration may not only have a short- but also long-term negative effect on the sector.

The greatest uncertainty, however, lies in the scale of investment in artificial intelligence and the extent to which it will ultimately translate into sustainable profitability. Let us be clear: we view artificial intelligence as a revolution — one that is already reshaping, and will ultimately redefine, nearly every aspect of daily life. It is equally evident that, in its early phases, substantial investments are not only justified but essential. However, the sheer scale of capital being deployed — potentially extending into the trillions — is undeniably daunting. This is particularly true as competitive pressures intensify at a rapid pace, adding an additional layer of complexity and risk to the evolving landscape.

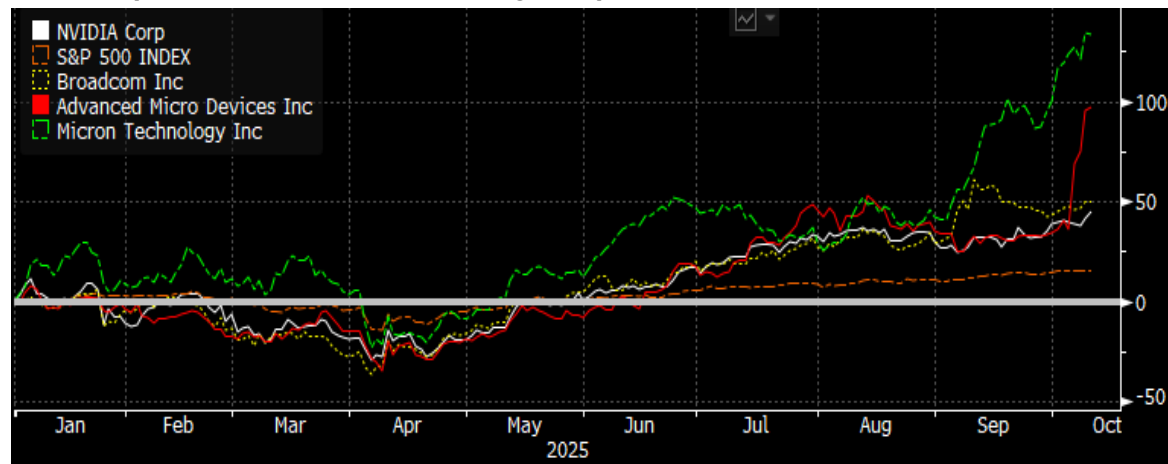
It is often argued that the technology sector is significantly overvalued. However, when we compare long-term earnings growth estimates with forward price-to-earnings multiples, we find this view less compelling—particularly in the case of more mature, well-established companies. Take Nvidia, widely regarded as the bellwether of the AI revolution: current consensus projects long-term earnings growth of approximately 39%, while its forward P/E multiple stands at 42x. On this basis, the valuation does not appear excessive in many instances—assuming, of course, that these growth projections are realized.

Valuation of Large-Cap Tech Companies

	Estimated Long-Term Growth	Forward 12m P/E
Nvidia	39%	42x
Broadcom	40%	41x
AMD	31%	60x
Micron	29%	12x
Applied M.	8%	23x
Microsoft	15%	34x
Oracle	18%	41x
IBM	7%	25x
Apple	14%	35x

Source: Bloomberg, Consensus vs. Analysts

YTD Comparable Performance of Large-Cap Semiconductors



Source: Bloomberg Dollar Spot Index



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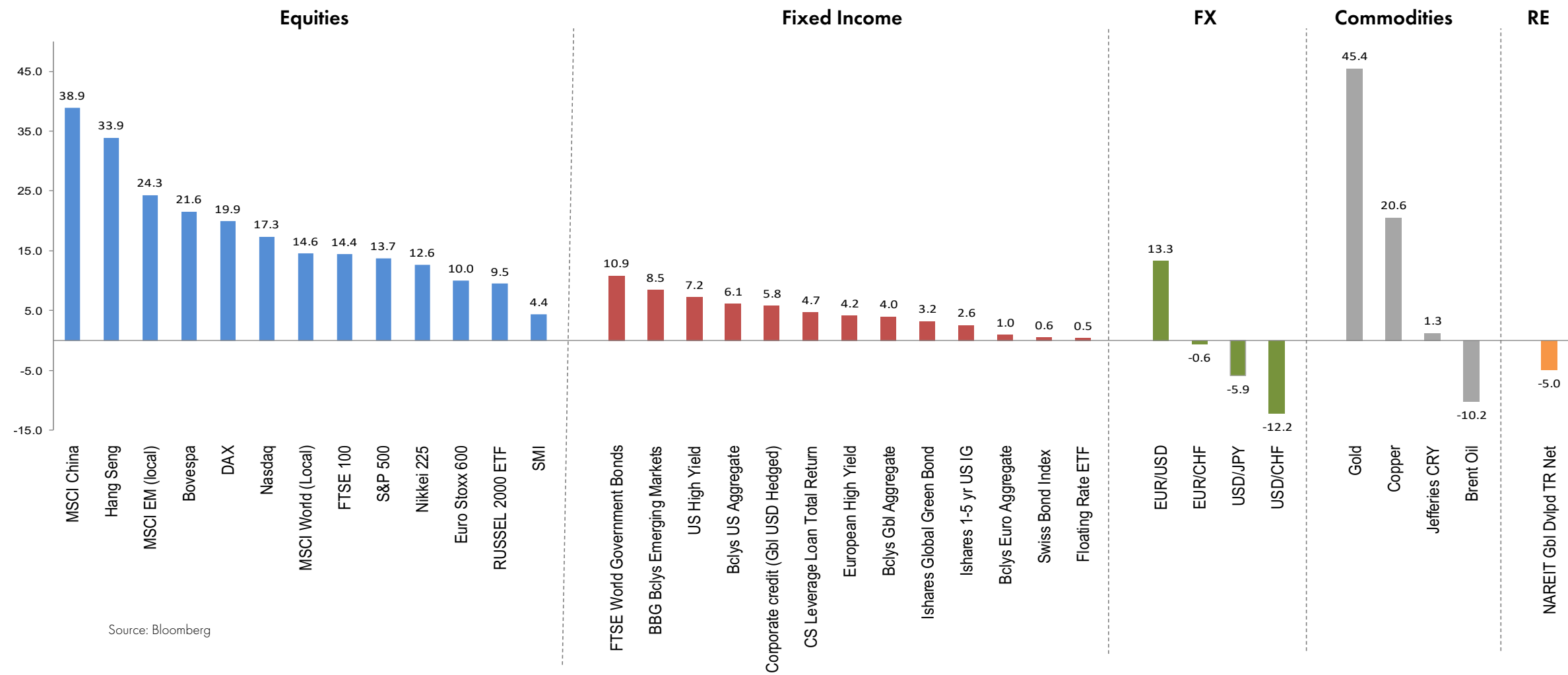
In light of the current dynamics within the technology sector — and against the backdrop of our view that inflationary pressures may re-emerge later in the year as inventory buffers diminish — we believe it is prudent to begin trimming select overweight positions in technology. At the same time, we are positioning for a potential sector rotation that may arise as market leadership broadens. We will closely monitor the upcoming earnings season, with particular attention to management commentary, in order to gain deeper insight into evolving fundamentals and to identify emerging opportunities with greater conviction.

Conclusion:

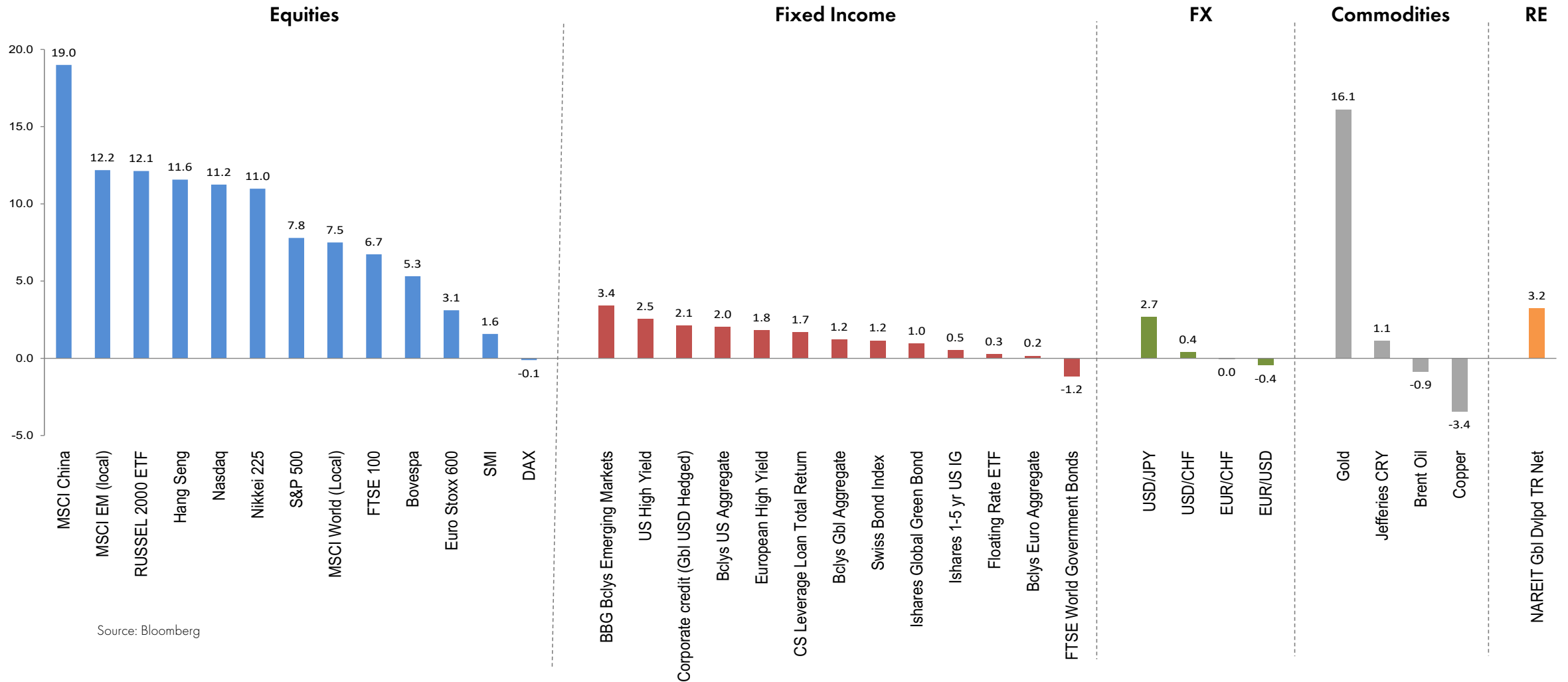
- Technology leadership has been warranted by innovation and strength in earnings growth.
- Contrary to consensus, we do not consider valuation in the technology sector as excessive, particularly not in the large, established companies.
- Nonetheless, signs of froth are increasingly evident in select sub-sectors and among smaller companies, where valuations seem driven more by momentum than by fundamentals.
- Initiatives by the US Government may hurt superb US companies not just short- but also longer-term.
- The scale of investment in artificial intelligence and the extent to which it will ultimately translate into sustainable profitability is a question mark.
- Given the revolutionary aspect of AI, we would stay invested in this area.
- We consider it prudent to trim certain overweight positioning in the technology sector.
- For the rest of the year, we consider the probability of a sector rotation to be quite elevated and would not hedge for a market decline.
- We started to position our portfolios in that direction.
- The upcoming reporting season will determine our stance for the rest of the year.

Please refer to the section “How are we invested and why” for further details.

YTD Performance of Major Asset Classes as End of September 2025 (in Local Currencies)



Q3 2025 Performance of Major Asset Classes (in Local Currencies)



Q3 2025 Performance of Major Asset Classes (in Local Currencies)

Timing was important to benefit from the impressive Chinese rally.



Source: Bloomberg

Performance major asset classes Q3 2025

- **Equities:** China successfully continued its rally through Q3 following the sharp tariff-driven downturn in April. China's firm stance against the United States' aggressive negotiation approach has proven effective, resulting thus far in a continuation of the tariff truce. The surprising acceleration in China's export growth reflects its effective outreach and deepening trade ties with major economies, including the European Union, Southeast Asia, Australia, and beyond. Mirroring global trends, the technology sector played a pivotal role in driving stock performance, with the emergence of DeepSeek exemplifying China's ambition to swiftly narrow the technological divide with the United States. Ongoing U.S. export controls on high-performance chips have further accelerated this strategic pursuit. US stocks also performed well with technology, communication services and small caps driving the returns. At the opposite end of the spectrum, the DAX barely moved in Q3, consolidating from a defense- and reconstruction-led advance in the first half of the year. Switzerland underperformed as well, with its key pharmaceutical and consumer staples segments offering little impetus to attract renewed investor attention.
- **Fixed Income:** For much of the quarter, inflation remained a concern. In the US, the sharp downward revision in the employment report led to an abrupt shift from inflation risk to growth risk. The Federal Reserve reacted by cutting rates. US yields swiftly declined. This move benefited mostly emerging markets and high yielding vehicles, reflecting a pro-risk attitude. In Europe, high government deficits and political chaos, particularly in France, as well as the need for large bond issuance limited yield adjustments.
- **Commodities:** Gold continued its impressive outperformance on geopolitical risks and a wave of purchases by central banks. The US government shutdown and doubts about US exceptionalism further supported precious metals.
- **Currencies:** The U.S. dollar finally stabilized in Q3. Reasons for the steadying were highlighted in our Q2 Quarterly.



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