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MARKET OVERVIEW SEPTEMBER 2025

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THE BEAUTIFUL PROMISES OF THE NEW SCHOOL YEAR

So far, investors have enthusiastically embraced this summer's news flow. Clarifications on US tariffs (despite a high average level), corporate earnings season demonstrating that the monetization of investments in artificial intelligence (AI) is already a reality (at least for technology leaders), Federal Reserve (Fed) Chairman Jerome Powell's speech at the Jackson Hole Central Bankers Symposium announcing a rate cut at the next *Open Market Committee* (September 16-17), the recovery of leading manufacturing indicators in the Eurozone, and more particularly in Germany (recovery plan), and to conclude this quick overview, the hopes – albeit tenuous – of a settlement (or freeze) of the conflict in Ukraine are all supports for stock market indices (new records on Wall Street). Are investors showing complacency? The valuation levels of stocks and credit markets (high-yield bonds) no longer reflect any risk of recession. We will attempt to answer this question while the uncertainties are far from negligible.

WHAT IF TRUMP WINS HIS BET?

This question is deliberately provocative, but it is not absurd given the increase of approximately 10% in the main indices of the New York Stock Exchange since January 1 (in dollars), and the slight decline in long-term interest rates in dollars (real 10-year sovereign rate below 2%). Despite the warnings of the community of economists attached to the virtues of free trade, the questioning of the American model of economic development by Donald Trump and his Administration no longer seems to be perceived as a clownish ineptitude likely to tip the financial markets into chaos.

On the tariff side, the average rate applied to exports to the United States is now around 20% (the highest level since 1933, and compared to less than 2.5% in January), a rate close to the darkest fears of investors in the spring, since the average rate based on the reciprocal tariffs presented at the beginning of April ("liberation day") was 23%! How then can we continue to claim that Trump has backed down? The White House's transactional and bilateral approach, which aims to obtain concessions through threats and blackmail, has clearly produced results. As an illustration, we note the abandonment of Section 899 of the budget program (the threat of taxation for non-resident investors from foreign countries accused of unfair trade and tax practices) in exchange for the abandonment of the global minimum rate of 15% planned by the OECD for American companies. No, Donald Trump is not a "TACO" (acronym for "Trump always chickens out"), or a deflated one according to a Financial Times columnist last spring.

The case of the European Union perfectly illustrates the balance of power. Brussels ultimately abandoned the idea of using its *weapon of mass deterrence* during the negotiations (the anti-coercion instrument in digital and financial services, which present a trade deficit

of more than 100 billion euros with the United States), and refused to demand reciprocity in access to public procurement. Brussels accepted practically all of Donald Trump's demands, including those relating to the purchase of energy products – in unbelievable quantities – and military equipment, in defiance of the Union's now necessary policy of strategic autonomy, and without any compensation, apart from the refusal to exempt American technological platforms from compliance with the standards imposed by the DSA (*Digital Services Act*) and DMA (*Digital Market*) directives. Act) on digital services and markets – we can clearly see the visceral attachment of Europeans to regulation and standards, "all is lost except honor" is said to have said the King of France François I. The EU wanted to avoid a *costly trade war*, according to Ursula von der Leyen. However, a 15% tariff on European exports to the United States (with some exemptions but still 50% on steel and aluminum), against zero duties for imports of American industrial goods and preferential access for agricultural products, can hardly be considered a triumph, despite threats of more severe tariffs, particularly on the automotive sector. While it has the resources (a market of 450 million consumers, abundant domestic savings), the Union still does not seem ready to assume a real power policy like China (which does not hesitate to resort to its favorite weapon of rare earths). The absolutely absurd promise of European direct investment in the United States (550 billion euros over three years, without details) is the opposite of the recommendations of the Draghi report, which advocates that the savings of the Old Continent be directed primarily towards its own needs in infrastructure, technology, research, education, etc., sectors to which we can add our military deterrent capabilities. But above all, what message has the European Commission sent to other trading partners? If the principles of multilateralism defended by the WTO are well and truly buried by the

United States, the obvious weakness of the EU invites the rest of the world, especially China, to consider this continent as a soft political entity that agrees to give in to blackmail. **The President of the Commission insists on the *deliberate choice of stability and predictability instead of escalation and confrontation*.** How predictable can we be in a trade deal signed with Donald Trump, who will not hesitate to challenge it at the slightest opportunity (see his recent unkind comments about the European directives on digital services) ? Finally, let us point out that the probability of the agreement being rejected by the European Parliament is not zero.

The stock markets have nevertheless decided to enthusiastically acknowledge the reduction in uncertainty brought about by trade agreements – even if not everything is resolved, since the United States has decided to extend the moratorium on customs duties on imports from China for another ninety days, and tensions are still high with India – **rather than worrying about the inevitable repercussions on global trade and American household consumption.** Because customs tariffs must be considered as a tax that destroys demand by reducing consumers' disposable income. At an average rate of 20%, theoretical tax revenues (imports in unchanged dollars) would amount to 2.2% of gross domestic product (GDP), compared to 0.35% before 2025, a shock equivalent to the potential growth of the American economy! **So far, optimistic investors are welcoming the resilience of global activity, with a growth rate just under 3% per year in volume terms** and economic performance slightly above expectations for the second quarter. **Moreover, for the moment, it is not the American end consumer who is paying the bulk of the bill**, as in the second quarter, companies and importers absorbed 60% and 10% of the customs duties respectively. **Benefiting from historically very high profit margins, companies would much rather spread the effects of the tariff increase over time than cause a sudden contraction in demand.** Donald Trump is grateful to them for this! However, the negative effects will inevitably be felt over time, probably as soon as the school year begins. Already in the first half of the year, growth in consumer spending (70% of GDP) slowed to 1.0% (annualized rate), a rate half that of the first half of 2024. **Consumption is indeed impacted by the sharp contraction in immigration and the resulting decline in job creation.** But the worst is undoubtedly yet to come, which still justifies a minimum of caution. Based on current tariffs, the negative impact on US economic growth in the twelve months ahead would be around 0.3 to 0.4% (source: Les

Cahiers Verts de l'Economie). The consensus among economists for next year is a growth in real GDP of barely 1.6%.

Under these conditions, it is difficult to be frankly optimistic about the New York Stock Exchange for the coming months: its paltry risk premium offers investors no margin of safety in the event of disappointments on the economic front (price/earnings valuation multiple expected at twelve months higher than 22!). It does not take into account, for example, the real risks of politicization of the Fed (pressure on its president, recent appointment of Stephen Miran to the Board of Governors, in favor of a weak dollar and a reform strengthening the prerogatives of the White House; contested dismissal of Lisa Cook). The risk premium did not budge an iota when Donald Trump fired the director of the Bureau of Labor Statistics, following employment figures he deemed disappointing, to replace her with a convinced *Trumpist*, enough to worry about the relevance and seriousness of future national statistics.

And yet, it's not all doom and gloom. Profit growth for US companies remains solid (+10% expected in 2025). **The monetization of AI, a tremendous promise of productivity gains, has already begun** : major technology leaders have published encouraging results in this area that exceed expectations (notably Microsoft, Meta Platforms, Alphabet, etc.), while agentic AI, which will spread its effects throughout the economy, is only in its infancy. Then, the *One Big Beautiful Bill Act* budget program, adopted by the US Congress at the beginning of July, would not be so neutral from the point of view of its impact on economic growth, particularly with regard to the new rules for depreciating business investments, which could result in an effective tax rate much lower than the legal rate of 21%. According to economists at investment bank Piper Sandler, the effective rate could reach 12% and boost the corporate investment cycle in the United States, in line with the White House's objective. According to Piper Sandler, the impact on GDP growth in volume would be +1.1% by the end of 2026, largely offsetting the expected weakness in domestic consumption. Finally, **a final positive factor for the economy, and not the least, is the deregulation of the banking sector (easing capital constraints), which should ease financial conditions and thus boost growth by supporting the private sector investment cycle.** With financial markets now pricing in two Federal Reserve rate cuts by the end of the year, this environment is rather favorable for risky assets in general and US equities in particular, when political events are of course put aside.

MONETARY POLICY: IS THE ECB TOO RESTRICTIVE?

What about Europe, one year after the publication of the famous Draghi report? Let's start by highlighting the good news: the clarification on American tariffs (reducing uncertainty for exporters), oil prices, wage moderation (around 2% for the increase in negotiated wages expected in the first half of 2026 in the eurozone, which suggests a deceleration of prices in services over the coming quarters) and the rise of the euro which contribute to the continuation of disinflation, and in turn to the improvement of real household incomes, to the great delight of the European Central Bank (ECB), the recovery of leading indicators of manufacturing activity supported by the German recovery plan and the EU defense program, and finally the competitiveness compass (European awakening after years of strategic wandering). On the bad news side, we highlight customs duties (-0.2 to -0.3% impact

on eurozone GDP over twelve months), growth in activity which remains generally mediocre (2026 consensus barely above 1% in the eurozone), the return of French political risk (see below), the general feeling that the EU is far too slow in implementing its competitiveness policy (Omnibus directives) and support for productivity, while history is accelerating, something that Mario Draghi recently recalled – with more vehemence than in his famous report – at a conference in Rimini. The EU remains a monster producing standards that is difficult to handle, and whose internal market remains too fragmented in services.

Is the ECB then excessively restrictive in terms of monetary policy? Its deposit facility rate is currently 2%, a level considered neutral by the Governing Council (a level that neither slows nor stimulates



demand). After eight rate cuts (from 4% to 2%), the consensus expects only one reduction over the next 12 months, which seems low given that long-term potential growth remains mediocre, around 1%. This question is perfectly legitimate, as Chinese industrial overcapacity, which is finding it harder to reach US ports, is spilling over into Europe, contributing to disinflation, and the rate of price increases in services, which still exceeds its pre-Covid level, is slowing thanks to wage moderation. **Are we facing a new blindness on the part of the ECB, as before Mario Draghi's arrival at the helm in 2011 in the midst of the sovereign debt crisis, or more simply a lack of action on the part of an institution that has remained passive in the face of the brutal appreciation of the euro/dollar parity, up 12% since the beginning of the year?** Comments from some ECB officials seem to indicate that the level of 1.20 dollars for one euro is becoming problematic. This is a call to the financial markets to test the real intentions of the Frankfurt institution!

CONCLUSION

In a world that has become more chaotic, what certainties can we base our asset allocations on for the coming months? First, and this is undoubtedly a real surprise for the most experienced investors, this chaos is not translating into increased market volatility or higher risk premiums. The early April drop was temporary, quickly erased by stock market indices. The weight of passive management and index funds probably explains this inertia. Equities are now rather expensive, especially in the United States, and already reflect the consensus's high earnings growth expectations. Second, the Federal Reserve will very likely lower its key rates, which, however, will not prevent the weakness of domestic consumption hit by customs tariffs and the sharp slowdown in job creation linked to the drying up of migration flows. The investment cycle in the US is nevertheless expected to strengthen, fueled by banking deregulation, tax policy, and Washington's incentives for foreign companies, including tariff blackmail if necessary. AI will continue to spread its positive effects throughout the economy (productivity recovery). The EU will absolutely have to shift gears as France confirms its unenviable status as the sick man of Europe. The ECB could ultimately shift from a neutral to a more expansionary monetary policy as inflation continues to decline.

The return of political chaos in France (the almost certain imminent fall of the Bayrou government amid a budget crisis), the sick man of Europe, is likely to greatly disrupt the ECB's calculations. Europe cannot afford a new sovereign debt crisis. However, the electoral weight of extreme parties in the French political landscape seems to make the reforms essential to restoring order to public finances impossible. With a long-term interest rate that now exceeds the nominal growth rate of the economy and a public deficit expected to be around 6% of GDP in 2025, France runs the risk of a snowball effect, that is, a loss of control over its debt. The ECB, whose mandate covers only inflation—unlike the Federal Reserve, which also monitors employment—would be wrong not to take seriously the risks of an economic relapse in the eurozone and its deflationary effects.

The current environment calls for greater caution (low risk premiums), but while a consolidation of the stock markets would be logical and even desirable, it would be risky to see the glass as half empty. The general trend in interest rates is rather favorable to financial markets and the global economy shows no signs of stalling that would call into question the trajectory of corporate profits. So far, the results of the AI-related technology sector demonstrate the absence of a financial bubble comparable to that of the internet in the late 1990s. In addition, investors keep in mind the recent crises that have demonstrated the formidable adaptability of the private sector (pandemic, disruptions in supply chains, energy crisis, etc.). This capacity for learning and transformation of organizations also evokes the statistical models on which AI is based, whose assistance to the private sector will be decisive in these uncertain times.

In conclusion, we reiterate our diversification advice and highlight the investment themes that will remain promising in the coming months, such as AI and its effects on productivity gains, the industrial recovery in the United States, the German fiscal stimulus plan, as well as the effort – unprecedented since the fall of the Berlin Wall – to strengthen the West's defense capabilities.

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