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MARKET OVERVIEW SEPTEMBER 2026

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MORE QUESTIONS THAN ANSWERS

Tensions over interest rates and the wars in the Middle East and Ukraine have been at the forefront of investor concerns over the past two months. Stock market indices have been buoyed by a very strong earnings season in both the United States and Europe. The AI revolution and sovereignty issues are fueling economic growth and profits across many sectors. The placidity of financial markets may nevertheless seem surprising given the context of rising inflation, increasing silver prices, and recurring international crises.

A THICKENING FOG

Many current events continued to fuel our thinking throughout the summer. **Despite tensions on the long end of the yield curve, global financial markets remained relatively calm.** Apart from the AI (artificial intelligence) infrastructure sector, and more specifically the semiconductor industry, one might have expected greater volatility in a period conducive to instability. **In fact, stock market indices largely benefited from the strong quarterly earnings season.** The pace of global economic growth remains fairly stable (annual rate slightly below 3% in volume). In the United States, while investments related to AI, energy, high-tech industries, and non-residential construction remain very dynamic, signs of weakness in consumption are more concerning (the end of tax breaks for households, the decline in the savings rate). Sales at retail giant Walmart grew by only 2.6% in the second quarter (excluding fuel), a pace below analysts' consensus, but above all at its lowest level in 6 years.

Geopolitical tensions remained high. The end of the ceasefire negotiated in June between the United States and Iran, and the continued blockade of the Strait of Hormuz–which is not entirely watertight–are destabilizing the already precarious balance of oil markets. Admittedly, crude oil prices did not reach the $150 per barrel that the most pessimistic experts had predicted after six months of blockade of the strait, which, before the war, saw 20% of the world's oil and 25% of its liquefied natural gas pass through daily. The shock was largely mitigated by the use of strategic reserves, particularly in China, which had the foresight to accumulate precautionary stocks before the outbreak of the conflict. Beijing also decided to shut down some of its own refining capacity. The rerouting of a portion of the crude oil that transited through the strait and the weakening of global consumption did the rest. Nevertheless, the situation remains perilous. Global stocks are at very low levels, and there is still a shortfall of 3 to 4 million barrels per day to balance supply and demand. Geopolitical tensions are not limited to the Middle East. **The escalation of the conflict between Russia and Ukraine and the increasing number of hybrid provocations against NATO countries clearly threaten peace on the European continent, which is no longer immune to miscalculations by the governments involved in this war.**

Inflation and interest rates have once again become pressing issues. While the conflict in the Middle East and heavy investments in AI have brought an end to the global disinflationary cycle, central banks are toughening their rhetoric, paving the way for a tightening of monetary policy in the coming months. At the Jackson Hole (Wyoming) central bankers' symposium, Federal Reserve Chairman Kevin Warsh–accused by investors of having obscured the communication of the US central bank (abandoning forward *guidance*) and damaging its credibility–sought to clarify his commitment to maintaining price stability. As a reminder, the Fed's 2% inflation target has been exceeded for the past five years. In July, the Headline PCE (*Personal Consumption Expenditures*) and Core PCE (excluding energy and food prices) inflation indices reached +3.7% and +3.3% year-over-year, respectively. Kevin Warsh regularly emphasizes his expectations of productivity gains driven by the spread of AI, which justify his optimism about the trajectory of price indices. While long-term inflation expectations remain firmly entrenched, the AI revolution is nonetheless resulting, in the shorter term, in a sharp rise in prices in the technology sector (electronic components) and electrical equipment, which are gradually spreading to all manufactured goods. According to Goldman Sachs economists, investments in *data centers* and AI account for an additional 0.2% of core inflation; some predict 0.5% by the end of the year. Following the more assertive (*hawkish*) speech at Jackson Hole, the two-year dollar interest rate, which reflects expectations for the Fed's monetary policy, rose slightly, and the US currency recovered some ground. **We For the sake of completeness, it should be noted that long-term US interest rates have been rising for several weeks (approximately +35 basis points since the end of June, with the 20-year rate at 5.25%), amid concerns about the trajectory of US public debt and federal deficits (-6.3% expected in 2026).** Treasury Secretary Scott Bessent responded by announcing on August 19th a program to purchase long-term securities in exchange for new short-term debt

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issuances. Subsequently, Treasury bonds saw only modest gains, as investors were not entirely reassured. In the same vein, we note the support given to the defense of the yen by Washington, worried about a possible sale by the Bank of Japan of its Treasury bonds (nearly 3% of the total public debt of the United States, or about 12% of the debt held by foreign investors), in the run-up to the midterm elections.

From the European Central Bank's (ECB) perspective, there is no doubt: its key interest rates will be raised in the coming weeks to anchor inflation expectations in the context of an external energy shock. Although still sluggish, the improved performance of European growth offers a window of opportunity.

THE AI REVOLUTION

The quarterly earnings season provided an opportunity to reassess the outlook for the AI revolution. Concerns about a potential investment bubble haven't entirely disappeared, which is understandable given the sums involved, but the AI theme has continued to attract investor capital. The speed at which AI is spreading throughout the economy is exceeding expectations (rapid deployment of AI agents). However, we have observed a healthy **sector rotation** in asset managers' portfolios, favoring sectors considered most threatened by AI (IT services, software, cybersecurity), at the expense of highly valued segments that performed best in the first half of the year (infrastructure, hardware, semiconductors, whose main index is now down more than 20% from its June peak). **In the software sector, the very strong results from Microsoft and Salesforce, exceeding expectations, have reassured investors that established software vendors can create value for their shareholders** in new AI-powered applications, provided they offer added value that their customers are willing to pay for. The issue of pressure on the *free cash flows* of *hyperscalers (cloud* leaders) remains a concern, however. Since July, following the quarterly earnings reports, consensus estimates for the total 2027 investment envelope deployed by Alphabet, Amazon.com, Meta, and Microsoft have been raised by approximately 20%! Including SpaceX in this list, total investments are expected to reach around $1.1 trillion to $1.2 trillion next year, compared to just under $800 billion for the current year. Debt and equity issuances intended to finance this historic investment cycle have obviously multiplied. **Investors are not happy about this, worried about the overspending on investment budgets and the contraction of share buyback programs, which have long contributed to supporting earnings per share and stock prices for the tech leaders.** It's probably no coincidence that Apple's stock market performance, having definitively abandoned the idea of developing its own AI infrastructure and models in-house (in favor of strategic partnerships with Alphabet, among others), far surpasses that of the other members of the "Big 7" club. In a way, those who spend the least perform the best, at least in the short term.

The results of technology companies demonstrate that the investment cycle in AI infrastructure is far from over. The rapid and massive deployment of AI agents consumes a considerable volume of *tokens* and demands more computing power. Numerous bottlenecks and physical constraints nevertheless exist. Semiconductor shortages, particularly in memory chips dedicated to AI, will not be resolved before the end of the decade. In the already rationed electricity supply, connections of data centers to the transmission and distribution network are being hampered by several US states, concerned about rising energy prices for households (New York State has declared a one-year moratorium on the construction of *data centers* larger than 50 megawatts; 14 other states are considering similar bills). **But above all China, which attracted all eyes during the summer. The *World Robot Conference* , held in Beijing from August 19 to 23, demonstrated China's true leadership in the convergence of robotics, advanced manufacturing, and AI.** A proponent of open source (as seen in recent announcements surrounding Moonshot AI), the Middle Kingdom has accelerated its development of AI-powered applications, while Europe, with an irrecoverable delay, is still considering how best to foster a leading player in these cutting-edge models. Chinese entrepreneurs are already poised to dominate the humanoid robot and industrial robotics sectors, both technologically and in terms of production costs. **Having belatedly decided to protect its domestic market from the onslaught of Chinese electric vehicles, will the European Union now have to defend itself against the best foreign robotic products?**

WHAT CERTAINTIES CAN WE CLING TO?

The current environment is deeply paradoxical for investors: it offers historic investment opportunities (the AI revolution, the energy transition, sovereignty issues), while simultaneously presenting a particularly anxiety-inducing backdrop (geopolitics, inflation, interest rates). Uncertainties abound, creating the feeling that markets are teetering on a precarious ridge, potentially tipping either way depending on the evolution of unpredictable factors. At this stage, what are the certainties upon which our asset allocation decisions are based?

To begin with, we can convince ourselves that the increasing barbarity of international relations is here to stay. From this perspective, the late 19th and early 20th centuries are undoubtedly a relevant historical reference point, with the rise of rivalries between major empires in a context of globalization and technological revolution. The Middle Eastern crisis seems to be heading towards a state of war or near-permanent war between the protagonists. The deterioration of relations between NATO and Russia is reminiscent of the most perilous days of the Cold War. **In other words, oil prices will be higher (compared to pre-February prices) for a longer period, which will also impact the prices of petroleum products** (fertilizers, plastics, fuels, synthetic fibers, etc.). **Inflation will also be higher for a longer period,** even if its peak was probably reached this summer (in the absence of a new oil shock). **Moreover, It will likely be more volatile, which justifies a rise in bond yields.** From this perspective, questions about the Fed's credibility do nothing to help investors see things clearly. Today, dollar interest rates are consistent with potential growth

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of around 2%, an inflation target of 2%, and a term premium (justified by the expected volatility of interest rates and the US budget situation) of around 1%. **Therefore, it is not the current level of interest rates that is particularly worrying, but rather a potential surge linked to the wrong reasons (ex-ante imbalance between savings and public and private investment, rising inflation expectations, loss of credibility of the Fed and/or the Treasury).** If we were to define a level of concern for stock markets, we would be tempted to say that long-term real (adjusted for inflation) interest rates exceeding the 2022 highs (2.5% for the 10-year Treasury bond), and a 10-year nominal rate above 5%, would constitute serious alarm bells for investors. **It's important to remember that the pressure on interest rates is decidedly upward,** a baseline scenario fully justified by the massive global investment effort and the vigilance of central banks determined to anchor inflation expectations **.**

A brief word about Europe, whose electoral calendars in the coming months will fuel the volatility of financial markets : the French presidential election (first round scheduled for April 18, 2027), the regional elections in Germany starting in September against a backdrop of the fragile ruling coalition in Berlin, and the parliamentary elections in Spain and Italy planned for 2027 are all political events to watch closely. **From this perspective, France's budgetary situation and the prospect of a political victory for utterly fanciful economic ideas next spring remain particularly worrying.**

To conclude our list of certainties, we repeat here that investment cycles linked to AI, energy and sovereignty themes (raw materials, advanced industries, defense) define the most attractive segments for the investor.

CONCLUSION

Caution and diversification will be the watchwords for the coming weeks. In the bond markets, the ex-ante imbalance between the colossal investment needs (essential for the digital, energy, and demographic transitions) and available global savings, in a context of intense competition between indebted states and the private sector, can only fuel tensions on the cost of credit, exacerbated by international crises. Stock markets, hitherto driven by AI and strong profit growth (consensus forecasts for 2026 at +29% and +16% respectively for the United States and the Eurozone), are vulnerable to an interest rate readjustment.

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