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MARKET OVERVIEW OCTOBER 2025

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INVESTORS' ROSE-COLORED GLASSES

September, a month conducive to the return of volatility, has always been feared by investors. The month that just ended was an exception to the rule: stock market indices broke new records, driven by Wall Street, to reach historically high valuation levels. Faced with the slowdown in the job market, the US central bank (Fed) resumed its cycle of lowering key rates. Investors are referring to the " *Goldilocks* " scenario to describe the favorable backdrop for financial assets: falling interest rates, an orderly slowdown in the US economy (low probability of recession), and profit growth driven by artificial intelligence (AI). The icing on the cake: the 2022 crisis is a distant memory: energy prices are trending downward (excess oil supply, abundant natural gas, falling wholesale electricity prices in Europe), contributing to the continuation of global disinflation.

INVESTORS DON'T WANT TO LEAVE THE BALLROOM

The common thread in the investment community is: "The markets are expensive, but no one is selling, so why should I leave the ballroom first and abandon the buffet?" Is this collective blindness, fueled by passive investment strategies and index-linked funds that sidestep questions about the valuation of financial assets? The main stock market indices, especially the American ones, have indeed become expensive (the main global index is valued at more than 21 times expected earnings in 2025, Wall Street at 25 times, the major index of technology stocks at more than 30 times), even complacent, driven by technology leaders and the craze for AI. Risk premiums now appear derisory outside of European and emerging markets, no longer reflecting any risk of recession despite the chaos caused by the White House since the beginning of the year (trade war, immigration policy, recent closure of several federal agencies, etc.), which nevertheless has a real impact on the confidence of economic agents and the growth of American activity (slowdown in the labor market and consumption, wait-and-see attitude of companies outside of information technology, etc.). However, the overall situation is by no means catastrophic: global economic growth remains anchored at its cruising speed of around 3% per year in volume, – the most recent OECD forecast for 2026 is +2.9% (despite the American growth rate having halved since 2024). Certainly, the full effect of customs tariffs has not yet been truly felt on global trade and the behavior of American consumers (phenomenon of overstocking before the implementation of the announced measures), and some very legitimate signs of concern concern employment in the United States (logical consequence of the attrition of migratory flows on the number of new job creations). The high degree of correlation between American household consumption expenditure and the wealth effect induced by the remarkable performance of financial assets (stock market indices at record levels, craze for cryptoassets, etc.) is an additional factor that weakens the outlook for consumption in the event of a sudden market correction, while the household savings rate

is very low. Furthermore, the intense political pressure from the White House on the Fed (attempt to take control of the Board of Governors, determined desire to monetize the federal debt), which should remind us of the well-established historical link between the independence of central banks from political power and monetary stability, is not a priori likely to reassure dollar investors. However, the markets much prefer to continue to put aside worrying elements, as evidenced by the very low and, to say the least, disturbing volatility of financial asset prices, which is quite out of line with the high degree of uncertainty. However, let us note one of the rare signals to denote some apprehension: gold, which is breaking new records...

Risk premiums (outside of European and emerging market indices) and volatility are therefore close to historic lows, including in the corporate bond segment (rate spreads with sovereign bonds). Should we be worried? This question is legitimate, because we must recognize that the prevailing discourse that consists of rationalizing this period of excess boils down to this phrase often heard in the periods preceding stock market crises: "this time it's different"! But while the market valuation of financial assets is decisive for estimating their long-term return on investment, it is in no way, on its own, an explanation for short-term performance. In other words, the markets are highly valued today, but may well remain so in the near future without any catalyst challenging investors' base scenario.

Before turning to the topics to follow closely, we want to mention a recent McKinsey study on global corporate profits, which, on average over the period 2020-2024 and adjusted for inflation, are 50% higher than the average level of 2005-2009. Moreover, the share of these profits in global gross domestic product (GDP) remained stable between these two periods at 1.1%, after a dip to 0.5% just before the pandemic. In other words, it is not accurate to say that stock markets

are completely disconnected from reality. Over the past twenty years, profits have accompanied global growth.

THE TWO CONDITIONS TO JUSTIFY THE RISE OF THE MARKETS

Federal Reserve Chairman Jerome Powell described the stock market as "*fairly highly valued*." This statement on September 23 did not have much effect on investors' cheerful mood. We recall in passing that the evocation of the irrational exuberance of the markets in 1996 by Alan Greenspan, chairman of the Fed from 1987 to 2006, did not have much effect either, since stock market indices continued their momentum for four years before the bursting of the internet bubble, which has remained in the collective memory as the paragon of the delusions of investors trapped by fads. Are we in the same situation?

The two important topics ultimately boil down to AI and the consequences of the White House's policy. As for Donald Trump's gamble, the US economy has held up rather well so far, even if activity is expected to lack vigor in the second half of the year. In fact, migration policy and trade posturing have clearly weakened the US economy's short-term growth profile, with the added bonus of some inflationary pressures (customs tariffs) deemed temporary (Fed). Moreover, it seems that the federal budget deficit is set to remain permanently high, around 6 to 7% of GDP (hence the pressure from the White House to take control of the central bank); the hoped-for and very hypothetical revenue from the increase in customs duties (a few hundred billion dollars at most) should remain much lower than the public deficit and even just the debt service, which is expected to exceed a trillion dollars! In reality, Donald Trump seems to want to bet everything on the reindustrialization of the country and on the investment cycle generated by tax cuts (notably the new rules for depreciating business investments provided for in the *One Big Beautiful Bill Act*, which could result in an effective tax rate much lower than the legal rate of 21%), deregulation (financial services, energy, etc.), incentives for foreign companies to locate their production units in the United States (if necessary by threatening tariffs, for example in the pharmaceutical and semiconductor sectors), not to mention a few government support programs (for around \$650 billion). For the moment, investment spending is mainly driven by AI, but the White House's objective is to support a broader investment cycle. Industrial relocation projects already exceed \$200 billion; this is undoubtedly only the beginning. **Donald Trump's gamble is obviously daring and, let's face it, widely contested by the community of economists attached to the virtues of multilateralism and free trade. Only time will tell whether Trump's macroeconomic revolution is a pipe dream or the expression of brilliant intuition, and whether American exceptionalism is definitively undermined.** Nevertheless, as an illustration of the sometimes favorable effects of the "gun to the head strategy," we want to mention the recent agreement between Pfizer and the Trump Administration on drug prices in the United States, which are much higher on average than those in force in the main developed countries (the result of a very complex market organization). The agreement would be particularly beneficial for the federal *Medicaid program* (health insurance for low-income households), in return for a commitment by the public

authorities to accelerate the approval procedures for future new molecules and the authorization of new pharmaceutical production units on American territory. For its future new drugs, Pfizer is reportedly committed to setting prices in line with those charged in major developed countries, a small revolution in the United States. Could Donald Trump succeed where Barack Obama completely failed, by making healthcare accessible to the greatest number at much more affordable prices (see, for example, his *direct-to-consumer initiative*)? It's too early to say, given that the White House controls federal programs and not the private sector, but this is certainly a step forward to be welcomed.

What about AI? The subject seems more serious to us for the financial markets because it has largely fueled stock market indices for two years. Indeed, investors are now expressing some reservations about the risks of an investment bubble in the infrastructure necessary for the large-scale deployment of this technology (more than \$400 billion expected in 2026 for the large *hyperscalers* compared to less than \$100 billion per year before the pandemic). Recent announcements by OpenAI (the developer of ChatGPT), Oracle (*hyperscaler*) and Nvidia (chips dedicated to AI) have also fueled debates on the circularity of investments in the sector (investments by semiconductor leader Nvidia in a client, namely OpenAI, which in return buys the GPU chips dedicated to AI), recalling the controversial practices of the internet bubble. The question of return on investment in AI (monetization) is obviously crucial, but it will not receive any answer in the very short term. The investment programs that significantly increase the capital intensity of the information technology sector—a major trend that began with the development of the *cloud*—will be deployed over several years. The subject that seems to us to be much more essential is that of AI's contribution to overall productivity, in other words, to the creation of value for companies that adopt AI. On this subject, we are rather excited by the projects that are multiplying, particularly in the agentic AI segment. Originally, the general enthusiasm for generative AI and large language models was essentially based on the technological revolution represented by the human-machine interface, with humans now having the possibility of communicating in their own language with machines, robots, and computers without necessarily having to master the technicalities of programming languages (improving interactivity). But it is above all the acceleration of the digitalization of the economy and the automation of tasks through the spread of AI in the economy that the immense hopes of productivity gains, and therefore of improvements in potential economic growth and higher corporate margins, rest on. This is precisely the message that the financial markets are delivering today. **From this perspective, investing in the stock markets today necessarily involves adopting a long-term view and betting on favorable dynamics in corporate profits, which remains the determining factor in the performance of stock market indices. This strategy does not seem to us to be an expression of irrational exuberance.**

CONCLUSION

Financial markets appear to be valued as if all uncertainties have disappeared; AI-powered technology remains a powerful fuel for stock market indices. **Investors are not blind to short-term issues (the end of multilateralism, geopolitical tensions, economic weaknesses, etc.), but have decided to focus their attention on the long term and integrate into their thinking the formidable technological innovations**

that will support the trajectory of corporate profits in the coming years. The high cost of indices nevertheless argues for greater diversification, work on the valuation of financial assets, and a shift in favor of more active and flexible allocation strategies. Furthermore, low volatility offers opportunities for hedging at reduced prices.

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