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ACT MA People & Planet

Easing expectations from the Fed keep risk assets buoyant

- The shutdown hasn't prevented markets from pricing two further cuts this year
- IT-led gains fuelled by AI/semis momentum and strong revisions in US and Asia
- Looking to broaden our risk to greater geographical areas or sectors

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What's happening?

Thanks to the strength of the AI sector, economic resilience persists for the US, but the transmission of customs duties through inflation is expected to accelerate and is likely to hit purchasing power as employment. The interruption of federal services since October 1st prevents the publication of public statistics and complicates the short-term reading of the dynamics of the American economy. In the euro area, relative stability contrasts with the ECB's status quo monetary policy and French blockages, such as the political instability and a stalled budget.

In the United States, the labour market is slowing with 32,000 private job creations in September. The manufacturing ISM slightly improved in September to 49.1 while the services PMI lost two points to 50. Despite a revised upward growth to 3.8% (annualized Q2) driven by consumption, the economy largely depends on the AI boom, which masks its structural weaknesses. The Fed has restarted its rate-cutting cycle by 25 basis points, justified by the deterioration of the labour market. Politically, the government shut down its public services on October 1st due to a lack of agreement on the federal budget.

In the euro area, the domestic economy holds up even though the decline in exports to the US is starting to be felt. This is reflected in a strengthening composite PMI at 51.2 in September, supported by a rebound in services at 51.3. Inflation rose to 2.2% year-on-year (+0.2 points) in September and core inflation is stable at 2.3% year-on-year. The ECB maintained its key rate at 2%, excluding any cuts in the short term unless unexpected deterioration in the economy occurred. Politically, the adoption of the French budget moves further away due to a lack of stable government. Fitch's downgrade of France (from AA- to A+) reflects its budgetary difficulties and the absence of consensus to stabilize its finances, while Italy, Spain, and Portugal see their ratings upgraded.

The Chinese economy continues its slowdown, with persistently weak domestic demand and a marked decline in investment -6.8% year-on-year in August. Industrial production fell to 5.2% year-on-year (-0.5 points) as did inflation, which plunged back into negative territory at -0.4% year-on-year. New targeted support measures are expected to avoid a downward revision of growth forecasts.

Following the resignation of Prime Minister Ishiba this summer, the race for the leadership of the LDP pits Koizumi against Takaichi. The winner will then have to consolidate a majority in a fragmented parliament to access the position of Prime

Minister. The Bank of Japan maintained its key rate at 0.5%; however, it surprised the markets by announcing the start of selling its ETFs and REITs, a key step, even if stretched over decades, towards Japanese monetary normalization.

We expect upcoming policy adjustments to be influenced mainly by the shutdown in the US and in Europe by fears of the deterioration of finances and France's upcoming political uncertainty. In the euro area, the rise of the rates is more moderate for German 10-year rates (+9 basis points to 2.7%), French (+6 basis points), and those of peripheral countries (+3 basis points for Italy and Spain). However, credit markets benefited from the tightening of spreads with a more pronounced amplitude on high yield. Finally, the dollar index appreciation of +3.2% also has had an impact on the markets.

Portfolio positioning and performance

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	Dec-24	Aug-25	Sep-25
Net Equity	69,3%	67,3%	67,8%
Equities	69,3%	67,3%	67,8%
Equities derivatives	0,0%	0,0%	0,0%
Risk Mitigation Strategies	0,0%	0,0%	0,0%
Fixed Income	26,5%	28,6%	31,4%
Govies	6,9%	9,0%	9,1%
Bond Derivatives	16,8%	6,9%	9,5%
High Yield Credit	1,5%	1,2%	1,0%
Investment Grade	16,5%	16,6%	19,6%
Emerging Debt	1,5%	1,8%	1,8%
Diversification	0,0%	0,0%	0,0%
Cash & Money Market	4,1%	4,1%	0,8%

Equity markets extended their summer recovery in September, with the portfolio delivering a positive performance. Gains were primarily driven by Information Technology, supported by ongoing momentum in the AI and semiconductor segments, as well as the strong earnings revisions across U.S. and Asian markets. Industrials also contributed positively, benefiting from improving business sentiment and signs of stabilization in European activity. In contrast, cyclical and defensive sectors lagged, with Utilities, Consumer Staples, and Real Estate offering limited cushioning as higher long-term yields and persistent fiscal concerns weighed on valuations. Overall, performance remained concentrated in growth-oriented themes, while defensive exposures provided little diversification benefit.

Fixed income delivered a broadly stable contribution, reflecting cautious duration management amid renewed volatility in sovereign yields. Investment Grade credit outperformed thanks to resilient spreads and steady demand for quality issuers, while High Yield and derivative positions detracted marginally as investors reassessed the policy outlook. Market movements reflected diverging central bank trajectories, with the Fed resuming its easing cycle while the ECB maintained a cautious stance, prompting relative adjustments along the yield curve. The portfolio maintained a preference for short maturities and high-quality exposures to preserve resilience in a changing rate environment.

Throughout the month, portfolio activity remained disciplined and selective. Equity allocations were maintained in high-conviction Technology and Industrial names, while exposure to low-volatility and defensive sectors was gradually reduced after the summer rally. Within fixed income, credit positioning was slightly rebalanced toward issuers showing improving fundamentals, particularly within southern European markets. Cash levels remained steady, ensuring tactical flexibility in light of ongoing political uncertainty and upcoming budget deadlines in key regions.



Focus stock of the month:



Monolithic Power Systems Inc (MPS) is a leading provider of high-performance, energy-efficient power solutions headquartered in Kirkland, Washington. Operating globally across computing, automotive, industrial, communications, and consumer markets, MPS designs and manufactures integrated power semiconductor solutions that drive the transition toward smarter, more efficient, and sustainable electronic systems.

Monolithic Power Systems made notable contributions to sustainable development and innovation in recent months through:

9.4: Upgrading infrastructure and promoting sustainable industrialization by designing highly integrated power management systems that reduce material intensity, improve reliability, and increase energy efficiency in critical industrial and infrastructure applications. MPS's monolithic approach consolidates multiple discrete components into a single chip, minimizing system losses and supporting the modernization of global data centres, automotive systems, and industrial automation.

7.3: Improving global energy efficiency through advanced power conversion and management technologies that lower power dissipation across a wide range of applications. The company's products enable substantial reductions in standby power consumption and thermal losses, directly supporting more efficient devices and sustainable energy use. MPS also invests in clean energy for its own operations, targeting a 40% reduction in Scope 1 and 2 emissions by 2030 through renewable energy adoption and energy-saving facility upgrades.

12.2: Ensuring sustainable consumption and production by reducing material usage, optimizing packaging, and extending product lifecycles. MPS operates an ISO 14001-certified Environmental Management System across its main facilities to monitor and reduce waste, water, and emissions. The company's solar installations and LED retrofits further exemplify its commitment to responsible resource management and lower operational carbon intensity.

Monolithic Power Systems' technology lies at the heart of the energy transition in electronics and industrial infrastructure. By delivering compact, efficient, and high-reliability power solutions, MPS enables a reduction in global energy waste and material usage, driving progress toward a low-carbon, innovation-driven economy. Its integrated design philosophy not only enhances product performance but also embeds sustainability into every stage of the value chain from silicon design to system efficiency.

Outlook

Markets successfully navigated both macroeconomic and geo-political hurdles this summer and we believe they have the potential to continue to push higher. The ongoing absence of any renewed bouts of angst, and hence a pull-back in prices or risk appetite, is unusual with more than 100 days without a retracement of 2% on the S&P 500. We believe the explanation lies in discretionary investor's positioning: while systematic strategies are generally aggressively positioned relative to history, the discretionary part of the professional market lightened up on risk into the summer. That has left a balance of demand, with investors fearing they would be missing out on the on-going rally, which in turn has driven it to the current self-fulfilling outcome. With the Fed confirming insurance minded rate cuts into year-end, buoyant activity in the US and hopes for renewed stimulus in China, we believe the rally can extend further.

The Fed's September meeting was a master class in both expectation management and integrity reassurance. Despite continued pressure from the US administration in both the media and the courts, Fed Chair Jerome Powell delivered the rate cuts the market had priced in since the dramatic downside revisions to past job creations data. Yet, on the other hand, the most vocal doves, other than new appointed Governor Stephen Miran, sided with the Chair and voted for just 25 basis

point cut rather than dissenting for more. This has comforted those investors that had begun to question the integrity of the Fed's independence. While inflation remains sticky (near 3%) and growth buoyant with latest GDP growth figures at +3% annualised, the Fed will remain challenged on delivering on both parts of its dual mandate (inflation and unemployment). The weakness of the US dollar has persisted and is entirely explained by the reduction of the interest rate gap, especially with Europe, but we remain mindful of any further attacks on the Fed's independence and focus on the US Supreme Court decision on Governor Liz Cook's attempted dismissal. We remain sellers of US dollars (with a 1.20\$/€ target) and absent from US duration, mindful of further curve steepening.

Our equity risk appetite is essentially focused on the case for greater US equity performance, driven by the enormous level of infrastructure investment to accommodate the AI boom. Still, we remain eager to broaden our risk to other geographical areas and/or sectors. To this end, we are accompanying the recent strong rally in Chinese equity markets that are driven by the expectation of another round of stimulus following poor macroeconomic data. Domestic retail investors are also providing increasingly important inflows.

Meanwhile, the tone adopted by European Central Bank President Christine Lagarde has once again veered to the hawkish side, leaving investors now pricing less than one more interest rate cut. We find this stoicism somewhat misplaced and cannot square that circle. Germany - the Eurozone's largest economy - has been going through two years of near recession, while France – the bloc's second largest is sluggish, though there is better growth in Southern Europe. We believe a rate cut can be priced back in, with deflationary forces still weighing on the region through the strong currency, weak energy prices and large-scale redirecting of Chinese exports from the US to Europe.

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